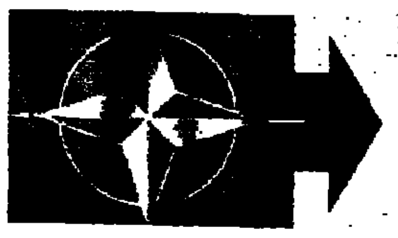
FINANCIAL TIMES

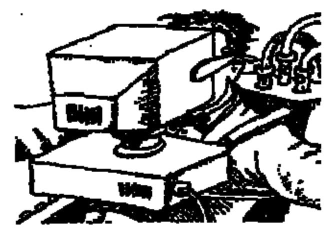
World Business Newspaper http://www.FT.com WEDNESDAY DECEMBER 18 1996



Nato
Step by step expanding east
Page 18

Telefónica
Transforming a state monopoly
Page 24

Today's survey
Norway
Pages 13-16



Wearable PCs
Prêt à portables
Technology, Page 12

Six Red Cross aid workers killed in Chechnya

The Red Cross froze operations in Chechnya yesterday after six of its aid workers – five of them women – were shot dead as they slept at a hospital compound in Novye Atagi, a village just south-west of the capital, Grozny. The victims came from Norway, the Netherlands, Canada, Spain and New Zealand. Both Chechen and Russian authorities condemned the attack, the motives for which were unclear. Page 2

Deal with Berlusconi: Italy's centre-left government is to make concessions to the TV interests of opposition leader Silvio Berlusconi in return for his co-operation on key legislation. Page 2

Telefónica takes Brazil stake: A consortium including Spain's Telefónica Internacional became the first foreign group to take an operating stake in Brazil's public telephones when it paid R$681m ($656m) for a 35 per cent of southern operator CRT. Page 21

EU ministers cautious on beef ban: European Union farm ministers cautiously welcomed Britain's decision to slaughter 100,000 extra cattle but warned that the worldwide ban on UK beef exports would not be lifted for a long time.

Ex-PM to head election probe: Former Spanish prime minister Felipe González is to head an investigation into disputed local elections in former Yugoslavia. Serbian president Slobodan Milosevic, under pressure over alleged election fraud, has offered to let the Organisation for Security and Co-operation in Europe investigate the polls. Page 2

Military crash kills 17: A Russian military cargo aircraft crashed while taking off at Pskov airport in the north-west of the country, killing 17 people including the commander of the Leningrad district.

UK ministers promote Iraq trade: The British government is encouraging UK companies to step up ties with Baghdad. Businesses need no longer get special permits to discuss contracts needed by Iraq for "essential civilian supplies and pipeline parts". Page 10

Czech politician quits: Jan Kalvoda resigned as deputy premier and justice minister of the Czech Republic after admitting he had falsely claimed to hold a doctorate in law.

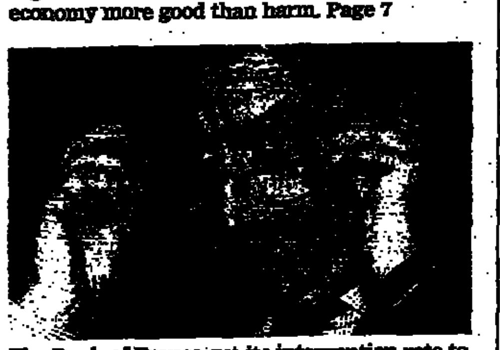
Query on degree standards: Some British universities which "franchise" courses to other countries are not doing enough to ensure that the degrees awarded are up to standard, a UK education watchdog warned. Page 10

Goldman Sachs, Wall Street's biggest investment bank partnership, set a new annual revenue record, though full-year taxable profits of $2.61bn were just under 1993's high. Page 21

Fed holds interest rates: The US Federal Reserve held interest rates steady. That leaves federal funds at 5.25 per cent and the discount rate at 5 per cent. Housing starts, Page 7

Diplomat sent home: A senior Honduran diplomat was sent home from Britain after allegations of involvement in fraudulent claims for over £36,000 ($59,970) of state welfare payments.

US academic favours stocks crash: "A decent collapse in the stock market would be nice right now," according to Larry Kimbell, director of the University of California, Los Angeles, Business Forecasting Project. He argues that a crash would probably do the US economy more good than harm. Page 7



The Bank of France cut its intervention rate to 3.15 per cent from 3.2 per cent. Bank governor Jean-Claude Trichet (above) said the cut reflected confidence in the Franc. Page 20; Bundesbank firm, Page 2; Currencies, Page 29

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,257.2	(-11.15)
NASDAQ Composite	1,262.51	(+1.53)
Europe and Far East		
CAC40	2,193.78	(-28.87)
DAX	2,815.13	(-40.66)
FTSE 100	3,978.6	(-14.2)
Nikkei	20,413.46	(-8.58)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.010%
Long Bond	97¾
Yield	6.66%

■ OTHER RATES

UK: 3-mo Interbank	6⅝%	(same)
UK: 10 yr Gilt	95¾	(95¾)
France: 10 yr OAT	104.74	(105.12)
Germany: 10 yr Bund	102.21	(102.09)
Japan: 10 yr JGB	104.5769	(104.114)

■ NORTH SEA OIL (Argus)

Brent Dated	$24.1	(24.075)

■ GOLD

New York: Comex	
(Feb) $370.5	(369.9)
London:	
close $369.20	(368.85)

■ DOLLAR

New York: lunchtime		
£	1.6705	
DM	1.5485	
FFr	5.221	
SFr	1.3215	
Y	113.70	
London:		
£	1.6729	(1.6619)
DM	1.5464	(1.5534)
FFr	5.2158	(5.2423)
SFr	1.3203	(1.327)
Y	113.765	(114.05)
Tokyo close: Y 113.74		

■ STERLING

DM	2.5883	(2.5816)

[illegible]

US to urge cut in phone charges

Regulator seeks ceiling on how much foreign carriers are paid for connections

By Nancy Dunne in Washington and Frances Williams in Geneva

The US is today expected to step up sharply its drive to lower the cost of international phone calls through a reduction in connection charges.

The Federal Communications Commission, the US telecoms regulator, is to lobby governments and telephone companies around the world for a move towards rates based on cost.

Under proposed rules, the FCC will set a ceiling on how much US companies will pay foreign carriers for handling US phone calls. This will mean that when US phone companies, such as AT&T, negotiate the rates foreign monopolies will charge for connecting international calls, there will be a limit to the level of the charges that can be agreed.

The FCC believes this will force connection charges down. Its officials estimate that average international connection charges are currently three times cost.

Last month, the FCC adopted rules to permit US carriers to enter into "more economically efficient arrangements" for connecting international traffic where competition exists at the other end of the phone line.

US companies operate in a competitive environment, with costs and prices much lower than those of foreign competitors that operate as monopolies. However, they say they have little leverage in negotiations and must accept the rates set by foreign monopolies.

The proposed rules will pose four sets of questions to be answered by industry and governments. Charge benchmarks for individual countries will be proposed, but the FCC will ask how these ceilings should be established.

It also will ask how long monopolies should be given before arriving at the benchmark rates, whether this should differ according to a country's level of development and if it is moving towards market liberalisation.

The FCC will also ask whether the ceilings should be mandatory or used as guidelines and whether US market access for a foreign company should depend on whether its settlement rates are at the benchmark.

FCC officials have come to the conclusion that they have the authority to address competition, whether or not a World Trade Organisation telecommunications pact is reached on February 15.

The proposed rules have also given an important boost to the WTO talks. Washington caused the negotiations to founder last April by, among other things, insisting on retaining the FCC's "equal competitive opportunities" (eco) test for foreign operators wishing to enter the US market.

Pressed by AT&T, the main US international operator, Washington said the eco test was necessary to prevent "free-riding" by overseas monopolies able to charge high prices for connecting calls in their domestic markets. But trading partners said the test, which requires reciprocity, was incompatible with the WTO's cardinal principle of non-discrimination.

The FCC's rate-setting scheme is designed to meet this objection while protecting US operators from unfair, by making the rules applicable to all applicants for a US operating licence.

Mobutu hailed on return to Zaire

President Mobutu Sese Seko receives an enthusiastic welcome from supporters at Kinshasa airport as he returns to Zaire. The president is attempting to reassert his faltering authority and quell a rebellion on the country's eastern border. He has spent four months in Europe undergoing treatment for prostate cancer. Report, Page 20 AP

JSkyB plans 150 digital TV channels for Japan

By Michiyo Nakamoto in Tokyo and Raymond Snoddy in London

Murdoch: Japanese deal

Plans to launch 150 channels of digital television in Japan from next year were announced yesterday by Mr Rupert Murdoch's News Corporation and Softbank, the Japanese computer software distributor and publisher.

The joint venture is an important part of Mr Murdoch's plans to take multi-channel digital television systems to many of the world's developed markets next year.

In 1997 alone, apart from Japan, Mr Murdoch is planning to launch digital television systems in the US, the UK and India to add to his digital operations in Latin America and Asia.

Mr Murdoch, chairman of News Corp, said last week: "Japan is the next major thrust. It has a large population with a lot of disposable income – more than Britain and America – who are keen to watch more television."

The Japanese joint venture, formally created on Monday and known as JSkyB, will happen in two stages: about 12 channels launched next autumn, and then 150 channels in April, 1998.

Mr Murdoch plans to offer existing Japanese broadcasters half a dozen channels on the satellite platform. The venture will also handle marketing and other services.

News Corp and Softbank will invest in about 12 different broadcasters to provide programmes for the expanded service. The two companies will take a 10 per cent stake in each of the 12 broadcasting companies and seek shareholders for the remaining shares.

Mr Murdoch said News Corp and Softbank each had a 21.4 per cent stake in Asahi TV, one of Japan's leading terrestrial broadcasters – underlining the importance of terrestrial broadcasters to the new satellite multi-channel service.

The first Japanese digital, satellite multi-channel service, PerfecTV, which began services in October, has signed up more than 100,000 subscribers in two months.

JSkyB hopes to be able to join with PerfecTV to allow consumers to receive programmes from both services with just one tuner and satellite dish. Eventually, JSkyB planned to offer broadcast services from three separate satellites and enable consumers to receive channels from all three with just one set-top box, Mr Murdoch said.

● Fujitsu, the Japanese computer manufacturer, has tied up with WebTV Networks, the US company, to provide Internet access and on-line content on Japanese TV. The joint venture company will be 65 per cent owned by WebTV Networks and 35 per cent by Fujitsu. In addition to Internet access, the service will provide contents such as map-based information services and an online magazine. WebTV Networks is the developer of the leading on-line service to deliver the Internet through TV in the US. Fujitsu, a world leader in computers, semiconductors and telecommunications, has the largest consumer on-line service in Japan, NIFTY-Serve.

French deal refused, Page 22

Sandoz and Ciba win US merger approval

By Daniel Green in London and William Hall in Basle

The US Federal Trade Commission yesterday approved the merger of Swiss pharmaceuticals companies Ciba and Sandoz but imposed stiff conditions.

The new group, Novartis, must offer other companies access to its promising patented genetics and cancer technologies. To comply with FTC demands, it has already sold its North American corn herbicides business to Germany's BASF for $695m and disposed of its flea and tick business for $41m to Central Garden & Pet of the US.

Although analysts were pleased by the FTC approval, there was disappointment at the conditions. Ciba's shares fell SFr2 to SFr1,625, while Sandoz shed SFr4 to SFr1,525.

Their merger will be completed on December 23 when trading in Novartis shares begins. The last stage of the merger – the spin-off of Ciba Speciality Chemicals – should be completed by next March.

Novartis will become the joint biggest drugs company in the world with Glaxo Wellcome, with global market share of 4.5 per cent on sales in the first nine months of 1996. Novartis also has businesses in agricultural sciences, nutrition and polymers. In 1995 it would have had sales of SFr36bn

Continued on Page 20
Clash of strategies, Page 25

Germany stalls Brussels curb on loan guarantees

By Emma Tucker in Brussels and Andrew Fisher in Frankfurt

European Commission plans to stop governments giving illegal state aid to companies through loan guarantees has been stalled following German government pressure.

The draft rules, if implemented, could force Germany to restructure its large public sector banking system.

The Landesbanken, or state banks, now enjoy effectively unlimited government backing. They have high credit ratings, in some cases triple A, because of their special status. The draft rules could force them to compete on equal terms in the European Union's single market.

One bank arousing particular concern among private sector rivals is the largest regional bank, Westdeutsche Landesbank, which has expanded rapidly, exploiting its top credit rating. WestLB received a capital injection of DM4bn ($2.5bn) through housing development funds in 1992. Other state banks have received funds this way.

German chancellor Helmut Kohl expressed concern about the proposed loan guarantee regulation in February when he met Mr Karel Van Miert, EU competition commissioner. The meeting also dealt with other sensitive state aid cases such as Bremer Vulkan, the troubled German shipyard.

Mr Kohl stressed to Mr Van Miert the importance of the publicly owned savings bank network and its links with the Landesbanken. He argued that interference with this structure would undermine confidence in the banking system. This could affect the introduction of the single currency.

"It seems it is not enough to have the treaty on your side if a powerful member state starts to make threats," said one Brussels-based lawyer. Under EU rules, government guarantees on loans are potential state aid and should be reported to Brussels, but states have ignored the law.

The issue came to a head in 1993 over unlimited Italian government guarantees to Efim, the state holding group. The Commission said granting an all-embracing guarantee on the debts of a business was "not the sort of transaction which a free market investor would normally undertake".

The case prompted concern among banks that existing contracts could be declared illegal and void. They pressed the Commission to clarify the legality of state guarantees.

Because of the German pressure, the draft rules have not been put forward to anyone outside the competition directorate. They say a guarantee does not contain state aid if it is limited in time and amount, and given to a financially sound company which must pay a premium for it.

Lex, Page 22

CONTENTS

© THE FINANCIAL TIMES LIMITED 1996 No 33,169

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

NEWS: EUROPE

Compromise on tycoon's TV interests breaks legislative log-jam in Italian parliament

Government deal with Berlusconi

By Robert Graham in Rome

Italy's centre-left government has agreed to make concessions to the television interests of Mr Silvio Berlusconi, the opposition leader, in return for his co-operation on important legislation.

The agreement ends the aggressive confrontation in parliament between government and opposition, especially evident over the 1997 budget. While senior government members said yesterday that this did not create a new majority in parliament, it nevertheless opens up the prospect of significant longer term co-operation, enabling parliament to tackle a thorough reform of the constitution.

It also raises the possibility of a cross-party accord on an amnesty to wind up the anti-corruption investigations that have destabilised Italy for four years. The new government-opposition climate will also speed up the creation of a telecoms regulatory authority which has been holding back the privatisation of Stet, the state-controlled telecoms group.

The sole dissenting voice yesterday came from Reconstructed Communism (RC), the hard line of the old Communist party, whose support has hitherto been essential to the government in the chamber of deputies. Political commentators said the RC feared being sidelined if the government no longer needed to rely on its votes.

The complex arrangement hammered out with the opposition underlines the enormous unresolved conflict of interest between Mr Berlusconi's role as a politician and his business empire through his continued control through Mediaset of three television channels. Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS) and dominant partner in the government, has exploited Mr Berlusconi's desperate need for a favourable interpretation of a constitutional court decision which threatened to strip away one station and cut advertising revenue.

This court decision should have been implemented on December 22 and could have led to the blacking out of one channel. Now Mr Berlusconi has obtained a postponement until May 30, with the possibility of a further 60 days, providing new television legislation has passed through one house of parliament.

In effect, this means Mediaset will probably be able to enjoy the same share of the advertising market next year before any change. Yesterday, Mediaset bought 25 per cent in Spain's Telecinco channel for L223bn ($146m), which Mr Berlusconi retained in his Fininvest holding when his media interests were floated last year.

In return, the government has obtained guarantees that at least 14 decrees which would have lapsed between now and January can be converted into law. These include an important shake-up of civil service employment, modernising the telecoms sector, and the streamlining of justice and early retirement provisions for staff at Alitalia, the troubled national airline. According to Mr Antonio Maccanico, posts minister, the agreement on these decrees covers a good five months parliamentary work.

Another part of the negotiations covered greater political control over the Rai state broadcasting organisation. In return for the Rai being assured some L600bn in funds, parliament will exercise close scrutiny of the organisation's industrial strategy.

It's a deal: Berlusconi has gained a breathing space

Russia urged to slash N-arms arsenal

By Bruce Clark in Brussels

Russia should follow the western example and slash its arsenal of tactical nuclear weapons, which remained very large despite the end of the cold war, Nato said yesterday.

The challenge was issued in a formal statement by Nato defence ministers, who will be joined today by their counterparts from the former Warsaw Pact, including Russia's Mr Igor Rodionov.

The latest message from Nato, which is trying to formulate a balanced policy on Russia as it prepares to expand, follows a statement by the alliance last week that it had no plans to put nuclear arms on the soil of new members.

Russian military experts have hinted that the role of their country's tactical nuclear arsenal could be upgraded if Nato enlarges. Mr Rodionov, while keen on Nato-Russia co-operation, has said nuclear missiles could be targeted on new alliance members.

Yesterday's statement called on Russia to move in the other direction. "At a time when Nato has vastly reduced its nuclear forces, Russia still retains a large number of tactical nuclear weapons in all categories," it said. Nato called on Moscow to complete the reduction of weapons in this category which was pledged five years ago, and consider further deep cuts.

Unlike long-range nuclear weapons which are subject to detailed arms control agreement, holdings of tactical or battlefield nuclear arms are a closely guarded secret, and guesses by think-tanks are the only available data on this subject.

Washington and Moscow both pledged in late 1991 to set about eliminating the nuclear artillery shells, nuclear mines and other short-range nuclear weapons, based on land, air and sea, which they deployed in huge numbers during the cold war.

US holdings in Europe have now been confined to one type of weapon, the B61 free-fall bomb, and reduced in number to barely 200 from a peak of up to 6,000, according to Basic, the disarmament lobby group.

Mr Jack Mendelsohn, deputy director of the US arms control association, said the Pentagon appeared to see little military use for tactical nuclear weapons in Europe, but allies such as Germany and Italy would object to their total removal.

Mr Stan Norris, a senior analyst at the Natural Resources Defence Council, estimated Moscow's tactical nuclear arsenal, all of which has been withdrawn to Russian soil, comprised at least 5,000 warheads.

While Moscow had pledged to eliminate some types of battlefield nuclear weapon and halve its holdings of certain others, there was no reliable data on how much Russia had to start with, Mr Norris noted.

EUROPEAN NEWS DIGEST

Six Red Cross workers shot

The Red Cross froze its operations in Chechnya yesterday after six of its workers were murdered in their sleep on Monday night. The Red Cross workers were shot in their hospital in Novye Atagi, a town near the capital, Grozny. All were foreigners from Norway, the Netherlands, Canada, Spain and New Zealand. Five were women.

Both Chechen and Russian authorities condemned the attack, whose motives were unclear. Some local Chechens suspected it was a "provocation" by Russian intelligence, while the Russian media speculated it might be the work of Chechens who were denied lucrative Red Cross jobs. After almost two years of war, Moscow agreed a ceasefire with Chechen fighters this summer. But the Chechen separatist authorities, who are the region's de facto government, have yet to establish effective control.

The attack came in the midst of a hostage drama which had underscored the Chechen leadership's inability to control some of its own fighters. On Saturday Mr Salman Raduyev, who led a raid into Russia earlier this year, seized 21 Russian policemen. *Chrystia Freeland, Moscow*

González in Serbia probe

Mr Felipe González, the former Spanish prime minister, will head a team of international observers to investigate disputed local elections in Serbia, where the annulment of opposition victories has sparked a month of street protests. Under pressure of widening opposition protests and western criticism, President Slobodan Milosevic last week invited the Organisation for Security and Co-Operation in Europe to assess the fairness of last month's poll.

Mr Milosevic yesterday met student protesters in Belgrade who had marched 240km in protest against the cancellation of opposition wins in Nis, Serbia's second biggest city. It was the first time he had met many of the protesters, and while he insisted the elections were fair, he said he would investigate claims of foul play and punish any wrongdoing.

In what may be an attempt to remove the most blatant cases of electoral fraud ahead of the arrival of Mr González's delegation, Serbian courts over the past three days have ordered the reinstatement of opposition victories in the towns of Nis and Smederevska Palanka, and a district of Belgrade. Remarks by Mr Zoran Lilic, the president of Serb-led Yugoslavia, yesterday appeared to signal possible purges within the regime. "Wherever irregularities are discovered... opposition demands should be accepted, and responsibility should be established," he said. *Laura Silber, Belgrade*

Greek civil servants strike

A 24-hour strike by Greece's civil servants yesterday, held in protest at government economic policy, was timed to coincide with the opening of debate in parliament on the 1997 budget. State schools, customs posts and government offices stayed closed, while doctors, diplomats and seamen joined a rally organised by the Greek Trade Union Federation outside the parliament building.

The budget's most controversial proposals are a public sector hiring freeze and the abolition of about 200 categories of tax allowances. Civil servants are to receive nominal wage increases averaging 8 per cent next year, but they object to a revised salary structure aimed at boosting productivity.

The broadening protests are set to climax tomorrow with a farmers' march on Athens to press demands for debt write-offs and the restitution of tax breaks on fuel and agricultural equipment. Although their three-week blockade of highways around Greece has eased, militant cotton-growers are still blocking the main Athens-Thessaloniki road.

Mr Costas Simitis, prime minister, says he will discuss farmers' problems when the roads are cleared, but repeats that the government cannot keep Greece on track for joining European monetary union by 2001 if it makes concessions to special interest groups. *Kerin Hope, Athens*

Editorial comment, Page 19

Hogg presses over beef ban

Mr Douglas Hogg, the UK agricultural minister, told EU farm ministers yesterday that the British decision to cull about 100,000 cattle considered most at risk of developing bovine spongiform encephalopathy (BSE) – or mad cow disease – meant it had fulfilled the conditions laid down in June for the resumption of beef exports.

He said the UK would make a formal request in early February to have the ban lifted on cattle certified as being free of BSE. An EU decision to lift the export ban has been blocked since the UK abandoned an agreement with its partners to implement a cull of animals most at risk of BSE.

However, Mr Franz Fischler, agriculture commissioner, said Britain would have to take further steps before the ban could be lifted. Also, Sir David Nash, president of the National Farmers' Union of England and Wales, said the UK would not be ready to meet the requirements for a lifting of the ban on its beef exports until next March. Sir David said the slaughter was unlikely to begin before the second or third week of February, after farmers had been given a chance to appeal against the decision to destroy their animals.

Alison Maitland, London and Caroline Southey, Brussels

Up to Pta300bn earmarked from privatisation cash over three years

Spanish coal regions win big aid

By David White in Madrid

Spain envisages setting aside as much as Pta300bn ($2.3bn) from its privatisation revenues in the next three years to provide redevelopment aid for northern coalmining regions, according to Mr Josep Piqué, industry minister.

The government is trying to defuse a fierce reaction to earlier threats that it might end subsidies to the coal industry in 2002, forcing the closure of the main state-owned mining company, Hunosa.

Mr Piqué said government subsidies to state and private-sector mines would go on for "some years", without specifying a time limit. The government is now negotiating with unions, coal companies and regional authorities on a plan to be ready next spring for the future of the sector.

"These will be long and complex negotiations," he warned. He recognised that state-owned mines and some private companies would collapse if subsidies were withdrawn now. "Practically no coalmining company would be able to compete with imported coal," he said.

Regional protests have forced the government to make a special case for coal in its plans for deregulating the electricity industry which have already been agreed with the country's main power companies. Under these plans, to be brought in over a 10-year transition period, supplies of fuel for electricity generation are to be fully liberalised, with the exception of Spanish coal.

All Spain's coal production – around 17m tonnes a year – is currently used for electricity generation, under conditions fixed by the government. Mr Piqué said these conditions meant that, in contrast to other EU countries such as Britain and Germany, output was still roughly the same as in 1980.

"We are the only European country that, along with increasing subsidies and declining employment, has kept production levels up," he said. Total subsidies for the sector next year were expected to amount to Pta222.5bn. With a forecast workforce of 24,000 in the industry at the end of 1997, this works out at a cost of Pta9.27m ($73,000) per miner.

Up to the expiry of European Coal and Steel Community treaty in 2002 Spain was entitled to pay subsidies, he said, on condition that the market was liberalised, the level of aid declined and production was reduced. Spain, however, fulfilled none of these conditions. "We are in a fairly indefensible position."

He forecast that the government would receive around Pta1,000bn of funds from privatisations planned next year, including the sale of its remaining stakes in Telefónica and Repsol, the telecommunications and oil groups, and part of its shareholding in Endesa, the country's largest electricity company.

Under EU rules, it could not use these revenues to cover current budget costs, but could channel them into "specific efforts" to restructure state companies or provide aid for mining regions.

Secret 'dirty war' papers published

By David White

The Spanish government's controversial refusal to release evidence on anti-terrorist activities during the 1980s was rendered pointless yesterday by the publication of the full dossier of secret service documents in the national press.

The move by the daily El País was aimed at countering a campaign by its rival El Mundo, which began this week to publish the documents in instalments.

A row over the documents, referring to the targeting of Basque terrorists in the south of France during the early years of the previous Socialist administration, has been raging since last year.

This summer the newly-elected centre-right government incurred fierce criticism when it upheld its predecessor's refusal to declassify the papers. It left the decision to the supreme court, whose ruling is expected shortly.

Requests for declassification were lodged by three judges investigating separate murder cases in the "dirty war" affair. According to one high-level official, the government's main concern was less about the documents already known about than the potential disclosure of other compromising papers.

A former interior minister and a Civil Guard general are among officials charged in the affair, involving kidnappings and some two dozen killings attributed to the so-called Anti-Terrorist Liberation Groups (Gal).

Some of the alleged secret documents appeared in Spanish newspapers last autumn. They are mainly transcripts of papers kept by a former top intelligence officer, Colonel Juan Alberto Perote, currently detained in a military jail.

They include internal notes and records of conversations – among them a paper weighing different kinds of covert action in southern France against members of the Eta Basque separatist group. The favoured option is "disappearance through kidnapping". Another note suggests a pact with Mafia members.

El Mundo claims that one piece of evidence – a handwritten annotation by Lieutenant-General Emilio Alonso Manglano, former chief of the Cesid intelligence service – demonstrates that Mr Felipe González, the then prime minister, was consulted about Gal's activities. Its claim is based on the abbreviation "Pte", which it says signifies "Presidente", the prime minister's official title. However, Gen Manglano has said it stands for "Pendiente", meaning "pending".

The annotation was attached to a note warning about the imminent start-up of "violent actions" in the south of France in September 1983. Another of the papers says that Mr González "apparently" knew about the falsification of evidence in the death of a woman terrorist.

Last month the supreme court voted by a narrow majority against calling Mr González to answer allegations that he authorised the Gal campaign.

El País justified its decision to publish the documents by saying it wanted to stop them being used in a manipulative way to control the political agenda. It said there were grounds for suspecting that the Gal disclosures were being used to bring pressure on behalf of disgraced former banker Mr Mario Conde in the legal case over his stewardship of the Banesto group.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06. Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Commission must sit in judgment

Chirac's move to reform France's judicial system has caused consternation, writes **David Buchan**

President Jacques Chirac's suggestion that the "umbilical cord", tying France's judiciary to its political executive should be cut, is sparking vigorous debate, even before a new government commission on judicial reform is appointed.

Mr Chirac said last week he wanted reform of French justice, like reform of defence, to be one of the hallmarks of his presidency.

He had told the government to appoint a commission to "examine how one can ensure respect for the principles of the independence of the judiciary and of the dignity of the defendant".

The commission may also take up other issues. Preventive detention is one. France has been scolded by the European Human Rights Commission in Strasbourg for the fact that more than half its prison population has never been tried, let alone sentenced. Another issue is the definition of – and even more the time limits on – the charge of "misuse of corporate funds" levelled at many company bosses.

So far, reaction has focused on the issue of judicial independence. Leftwing magistrates and newspapers have generally welcomed the prospect of reform, on the grounds that it would prevent the Gaullist-led government from smothering the judicial investigations of Mr Chirac's RPR Gaullist party, especially in Paris where the president was mayor for 17 years.

Several rightwing politicians have questioned Mr Chirac's move.

One Gaullist deputy, Mr Patrick Devedjian, voiced concern over the consequences of the disappearance of political control in a way that may give all mainstream politicians pause for thought. "What would happen," he asked, "if a magistrate, close to the [far-right] National Front, were to decide to prosecute only Maghrebin burglars?"

The nub of France's judicial problem is the unequal position of its two categories of magistrates – magistrates of the "siège" [bench] and magistrates of the "parquet" [floor].

Some of the magistrates of the "siège" rule on cases like Anglo-Saxon judges, others are "juges d'instruction," investigating magistrates who have become increasingly bold, as many French politicians and businessmen know to their cost. This is not surprising because magistrates of the siège are appointed by their peers in the Supreme Magistrates' Council (CSM), even though the French president and justice minister are nominally also members of this body.

> Magistrates of the siège are immovable; they cannot be forced to resign, or be promoted and kicked upstairs against their will

Magistrates of the siège are immovable; they cannot be forced to resign, or be promoted and kicked upstairs against their will.

As their old French name suggests, the magistrates of the "parquet" present cases from the floor of the court, in effect acting as public prosecutor. Their status is quite different. From a list provided by the CSM, they are appointed, and can be removed, by the justice minister who can, and often does, instruct them on cases.

The role of the "parquet" is crucial, not only because it supervises preliminary police investigations but also because a juge d'instruction cannot take up a case until that case is passed on by the "parquet". It is extremely hard to appeal against a decision by the "parquet". Thus, the political independence of the "siège" can be easily undermined by the political dependence of the "parquet".

In the wake of Mr Chirac's initiative, Mr Robert Badinter, a distinguished constitutional lawyer and former Socialist justice minister, claimed the key reform was to extend the career guarantees the "siège" enjoy to the "parquet". This is what in many ways several of France's neighbours have done, most notably Italy.

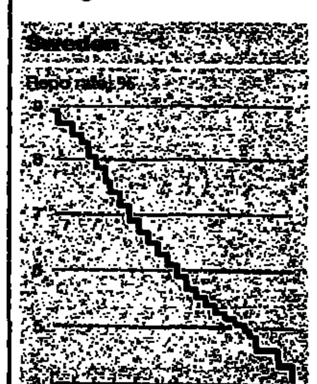
But not everyone is convinced of the real weakness of the "parquet". Mr Chirac, in his television interview last week, noted that the parquets' prosecutors "do not obey" ministry instructions, though it was unclear whether he meant this approvingly or disapprovingly.

Mr Eric de Montgolfier, the Valenciennes public prosecutor – who proved his independence in pursuing Mr Bernard Tapie, the former leftwing politician/businessman and one time owner of Olympique-Marseille, in a football bribery case – says political "dependence is all in the head".

If French governments were to cut their umbilical cord to prosecutors, they would find it hard to set any kind of centralised judicial policy on, for example, economic crime, sexual violence or racial discrimination, says one French lawyer. "It could create judicial anarchy as in the US," adds this lawyer, who has a number of US clients.

ECONOMIC WATCH

Key Swedish rate trimmed



Sweden's central bank, the Riksbank, yesterday cut its key repurchase rate from 4.35 per cent to 4.10 per cent, but warned that room for further reductions was limited. Publishing its quarterly inflation report, the Riksbank predicted that annual consumer prices – which have fallen year-on-year in the past two months – would rise by almost 1.5 per cent in 1997 and by 2 per cent in 1998. It said the increases would be driven by the waning effect of lower interest rates and a stronger exchange rate. Figures from Statistics Sweden showed gross domestic product grew 1 per cent in the first nine months. The increase was ascribed to a 2.4 per cent increase in private consumption and higher export and investment levels. Industrial orders rose 4 per cent in the year to October but declined 3.8 per cent from September to October after a sharp rise in late summer. *Greg McIvor, Stockholm*

- The EU's seasonally adjusted unemployment rate in October was 10.9 per cent, unchanged from September and compared with 10.8 per cent a year earlier.
- The Spanish trade deficit narrowed 39 per cent to Pta166bn ($1.3bn) in October from a year earlier, and compared to a Pta301bn deficit in September.
- Finland's trade surplus in September totalled FM3.021bn ($654m), compared with FM4.412bn a year earlier.
- Switzerland's seasonally adjusted trade surplus widened toSFr781.7m ($165m) in November, compared with a revised surplus of SFr273.3m in October and a surplus of SFr599.9m a year earlier.

International community promises support as part of plan to stimulate growth

West pledges Ukraine $2.4bn

By Matthew Kaminski in Kiev

Western governments and institutions yesterday pledged Ukraine $2.4bn in loans next year to finance a higher budget deficit as part of an ambitious plan to stimulate growth.

The western support, which was finalised at meeting in Washington, comes at a politically tense time in Kiev as parliament considers the government's proposals for a tax cut, a deregulation package, pension reform and the 1997 budget.

A senior US government official said the international community was ready to "support the important reform programme" with $5bn in the next three years. Yesterday's meeting was "the last piece of the pie".

The International Monetary Fund said yesterday western governments had nearly covered Ukraine's needs next year with pledges of more than $600m. The IMF agreed to give more than the $1bn originally planned as did the World Bank, now down for $750m in loans. Trade credits worth $1.1bn were separately pledged.

The assistance can not be accessed until parliament approves the legislative package and the budget. But, Mr Victor Pynzanyk, deputy prime minister who led the Ukrainian delegation in Washington yesterday, said the proposals were "some of the most far reaching in the region" and predicted swift parliamentary approval since "no one has any other choice". The planned reduction in tax rates and easing of government oversight of private business activity is aimed at reversing the 10 per cent gross domestic product drop in the first nine months by next year.

The expected decrease in revenues last month led the government to raise the 1997 fiscal deficit from 2.3 per cent to 4 per cent, roughly half of which will be financed by the west. Ukraine also needs western support for foreign debt payments of $1.4bn that are due next year. Gross financing needs in 1997 are $3bn, according to the IMF.

The growth stimulation measures are meant to consolidate Ukraine's recent achievements in keeping monthly inflation under 3 per cent and stabilising the currency.

The European Union confirmed last week the second tranche of its Ecu200m 1996 balance of payments support loan would not be released this year, as planned, after the Kiev government last month imposed new import duties and did not remove export duties on livestock and hides and skins.

Some doubt was cast over Mr Leonid Kuchma's commitment on reform earlier this week when Mr Anatoly Halchinsky returned as the president's chief economic adviser. Mr Halchinsky, dismissed from the same post last year, stood behind the president's softening on reform that eventually caused a rift with the IMF in 1995.

Juppé pins hopes on book

By Andrew Jack in Paris

France's prime minister has resorted to a new tactic in his battle to improve his flagging popularity – speaking directly to the people over the heads of the media.

Mr Alain Juppé has written a book, apparently the first published by a French prime minister in office, designed to defend his policies and reveal the softer side of his personality.

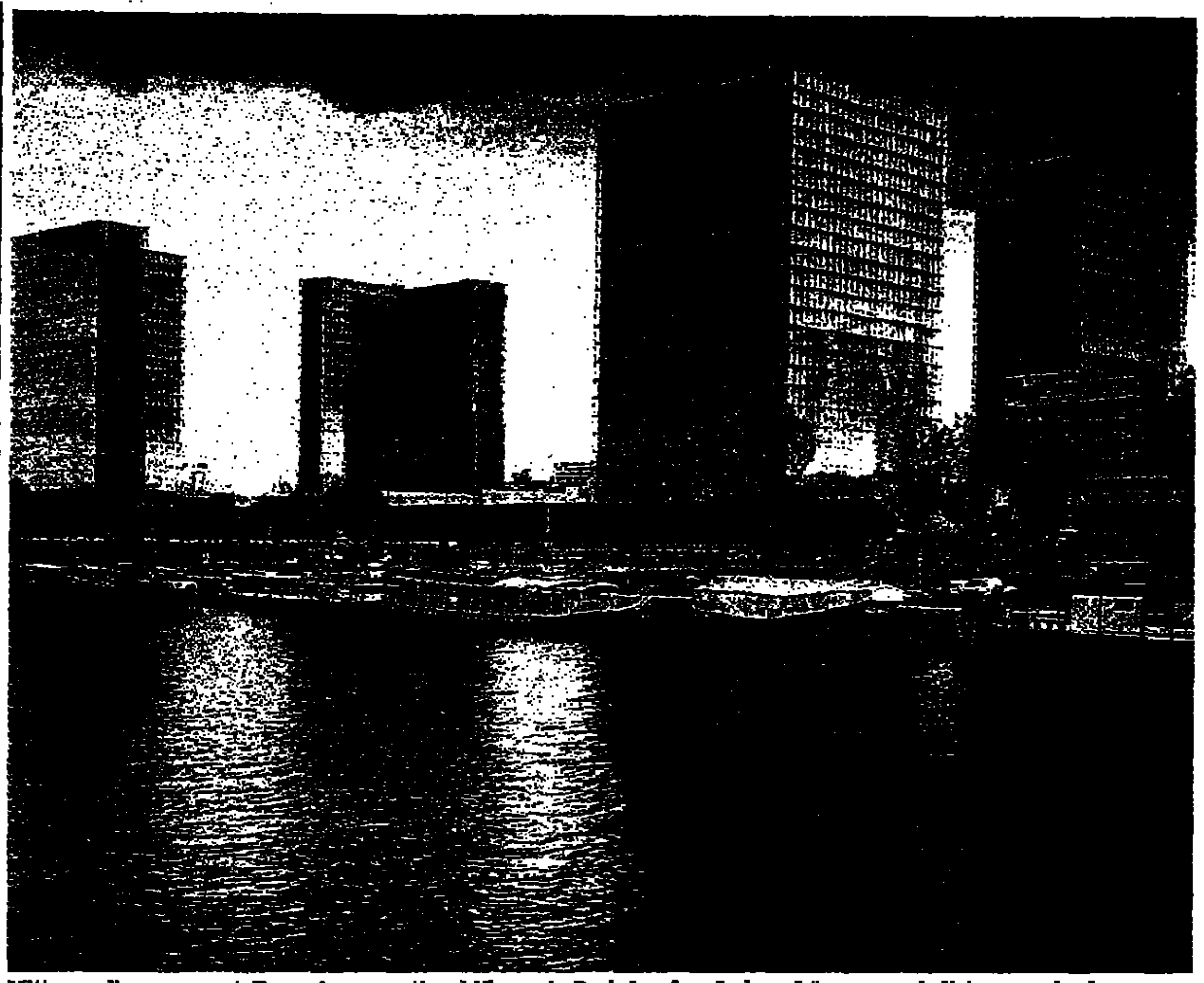
In just over 100 pages, *Entre nous* (*Between us*) – attempts to portray a sensitive, emotional man unfairly attacked by the press over 18 months in office, a leader with his feet firmly planted on the ground in spite of his computer-inspired nickname "*Amstrad*".

The book, priced at FFr59 (£6.82) with an initial print-run of 50,000, was prepared in great secrecy. It was written in just over a month – Mr Juppé called the publisher in late October – and was updated after the December 3 bombing of a Parisian commuter train, which he says left him angry, and determined to fight "with all my force, all my heart". The publisher, NiL Editions, is a small Paris-based company launched two years ago and which produced two electoral pamphlets issued by Mr Juppé's fellow Gaullist, President Jacques Chirac, as well as the best-selling books on southern France by Englishman Peter Mayle.

The prime minister says he loves power – "the effective power to resolve a problem." Answering charges of an elitist manner, he stresses that he worked hard to achieve his qualifications and did not come from an aristocratic family.

He calls the proposed single European currency the "only way for our children to work in a region protected from international financial speculation, with equal chances against the dollar."

Observer, Page 19



Mitterrand's monument: France's new national library in Paris has four L-shaped towers symbolising open books. Alain Gouston

Bibliothèque makes towering debut

By Andrew Jack in Paris

President Jacques Chirac yesterday inaugurated the public sections of the Bibliothèque Nationale de France, the country's monumental new national library which has been shrouded in controversy since the project was launched in 1988.

The building, which stretches over seven hectares and has four L-shaped towers symbolising open books, cost nearly FFr8bn ($1.5bn) to complete and has been subject to delays.

From Friday the public will be able to gain access to books on open stacks, as well as magazines and newspapers, while films and other audio-visual materials can be examined on computer screens.

They will be charged FFr20 a day or FFr200 a year for access – with reductions for students and those on low incomes – making a small contribution to annual operating costs estimated to run to FFr1bn.

The entire library was scheduled to open last October, and former Socialist President François Mitterrand, who died in January and originally announced its construction, had already inaugurated the building once last year. Academic researchers will not now have access to the parts of the library designed for them until 1998.

Amid intense debate, the decision was recently taken to name the new site Bibliothèque François Mitterrand, although staff stressed yesterday that the overall institution, which includes the existing historic national library building in central Paris, would retain the name Bibliothèque Nationale de France.

Mr Jacques Attali, the former adviser to President Mitterrand, had originally proposed an ambitious "virtual" library, with all existing collections stored and accessible in electronic form, but the plan had to be abandoned after concerns were raised over the cost and practicality.

The towers were designed to be transparent, but are now covered in wooden shutters, in response to fears of the damaging effect of sunlight on the books stored inside.

Ecologists complained about the artificial garden, containing trees transplanted when they were already fully grown, and the tropical wood from Gabon which lines much of the interior.

There have also been concerns in the local community.

The library is supposed to be the centrepiece of a wide-ranging redevelopment of parts of the 13th arrondissement of Paris along the River Seine.

But at present it stands isolated in the middle of a construction site, at the centre of a debate by local residents concerned about the destruction of their community, and many dozens of artists whose studios in an adjacent building are under threat.

Issing warns on euro and competitiveness

By Andrew Fisher and Peter Norman in Frankfurt

Mr Otmar Issing, a senior director of the Bundesbank, has warned against making the European single currency an instrument for boosting trade competitiveness as this would undermine attempts to keep the euro stable.

Mr Issing, a member of the German central bank's policymaking council, said European economic and monetary union would have powerful implications for wage policies in the euro area because excessive pay deals would immediately have a negative impact on employment.

In an interview with the Financial Times, Mr Issing said the real dimensions of Emu were becoming clear to more people as the planned starting date of January 1 1999 approached.

"History does not end when Emu starts, as people are gradually realising," he said.

He emphasised that the single currency would cause fundamental changes in the conduct of economic fiscal and monetary policy in Emu countries. The impact would be felt well beyond the currency arena. "There will be no exchange rate freedom and there will be an independent central bank with the obligation to pursue price stability."

Mr Issing strongly opposed suggestions that the euro should be kept relatively low against other important world currencies to help companies' business abroad. "You can't promise a weak euro to exporting industry and a strong euro to savers. The euro should not be seen as a mechanism for promoting exports. That will not do."

Although he did not identify those who had expressed such views, some French politicians and bankers, as well as German businessmen, have indicated their support for an internationally competitive euro to help exporters.

Mr Issing said, however, this would work against the efforts of those striving to build up confidence in the new currency.

"You can't talk down the euro for the purpose of using the joint currency as a weapon in world trade. The option of making the currency soft through lax monetary policy is not available in the treaty – the ECB [European Central Bank] is not allowed to do this – and this would not help if inflation in the euro zone were then to rise."

He was equally outspoken about the need to guard against irresponsible wage policies in the future Emu zone. "Currency union will have consequences for wage policy," he added.

"Mistakes in wage policy will have an immediate effect on employment. Not everyone is aware of this. But people will have to learn this very fast."

The impact of high wage rates could not be offset by exchange rate devaluations or be accommodated by the ECB.

"Those who expect a stable common currency in Europe with an independent central bank that does not bow to pressure must also expect wages to come under the same influence," Mr Issing said.

As the institution charged with maintaining the euro's stability, the ECB would need a strategy "that acts as a pre-commitment to the public".

This would involve, above all, a monetary policy based on money supply indicators. The ECB should augment its money supply policy with forecasts on price trends.

"I propose a clear hierarchy of indicators," Mr Issing said. "For us [in the Bundesbank], money supply is the most important. Then, some way behind, come such important factors as exchange rates and price trends, labour unit costs and so on."

He said he did not favour inflation targeting as practised by the Bank of England because this was a "second best solution".

Fears over Emu, Page 18

Bundesbank stays firm on short-term rates

By Peter Norman

The Bundesbank yesterday rejected suggestions that it should cut short-term interest rates to give Germany's sluggish economic recovery a boost.

In remarks anticipating a decision not to change borrowing costs at tomorrow's meeting of its decision-making central council, the bank took issue with opposition politicians who have urged a more aggressive monetary policy to stimulate the economy.

In its latest monthly report, the bank warned that a "short-termist" rate cut would raise the risk premium on long-term interest rates and increase the danger of speculative disruptions on financial markets. Noting that the control of inflation was a permanent obligation, the bank said it would be wrong to cut rates because Germany currently enjoyed price stability.

The Bundesbank warned that economic growth and a strong export performance in recent months did not mean Germany had solved its problems. Weak business investment and rising unemployment pointed to the need for moderate and flexible wage settlements and lower taxes, especially for the company sector.

Mr Theo Waigel, finance minister, yesterday reaffirmed the government's goal of cutting Germany's income and corporation tax rates to competitive levels so that advanced industries such as cars, chemicals and computers would no longer invest outside Germany for tax reasons.

Promising the government's special commission on income and corporation tax reform would complete its work by end-January, Mr Waigel said his aim was to bring top tax rates below 40 per cent and create scope for "thousands and thousands" of small and medium-sized companies to grow.

Speaking in Munich yesterday, the minister said economic models based on the early outlines of the planned tax reform suggested it would boost real economic growth by about 0.5 percentage points and add up to 1.5 points to investment growth rates. The government aim is to reform the income and corporation tax systems from January 1999.

Mr Waigel said he intended to prepare the reform so thoroughly by the end of next month that political decisions could be taken immediately and a start be made to turning the policy into legislation early next year.

Moscow will take 'appropriate measures' if the Taliban forces push further north, says envoy

Russia warns of Afghan intervention

By Mark Huband in Mazar-i-Sharif

> 'I believe that considering Taliban's actions and their ideology, that they are planning to come here . . . and we think their coming here would be a threat to the CIS' **Russian diplomat**

> 'It's basically an economic war that Russia and other powers are pursuing' **Pakistan's consul**

Russian action to halt the advance of Islamic fundamentalism from Afghanistan into the central Asian states will become more overt if the forces of the Islamic Taliban movement pierce the buffer of Russian and Iranian-backed factions opposing the Islamists in northern Afghanistan.

"If Taliban came into the north there would be terrible bloodshed. And if our borders were under threat we would take appropriate measures," said Mr Nikolae Schevchenko, head of the Russian diplomatic delegation. The delegation has been based in the northern town of Mazar-i-Sharif since the seizure of Kabul by the Taliban in September.

"The Russian role in the region is inevitable," he said, specifying that Russia views its borders as those of its southern neighbours Uzbekistan, Tajikistan and Turkmenistan.

"I believe that considering Taliban's actions and their ideology, that they are planning to come here, and they are preparing their expansion as far as Samarkand, and we think their coming here would be a threat to the CIS," he said.

Seven years after the Soviet withdrawal from Afghanistan, the war-ravaged country is now more than ever the focus of regional rivalry.

"There's a trilateral alliance between Russia, India and a third state. None of these three powers wants a return of peace, because it's not in their economic interest," said Mr Umar Khan Alisherzai, Pakistan's consul general in Afghanistan, avoiding naming Iran as the third country involved.

"It's basically an economic war that Russia and other powers are pursuing. These Central Asian countries and northern Afghanistan are full of natural resources. Russia won't be able to exploit these resources, because it doesn't have the investment capability, and fears competition from the more technically developed economies of the west."

Russian officials are agreed that economics is central to the strategy being played by all the countries involved, though they claim that Russian technology and political presence will provide a balance between western interests and Iran's regional goals.

"Russia is consolidating itself, our main interest being to ensure that our allies in the region are safe," Mr Schevchenko says. "The trade routes to the Indian Ocean would be of great benefit to Russia. [The Russian gas company] Gazprom will play a major role in the gas pipeline from Turkmenistan, as technically all gas projects in Turkmenistan are based on Russian technology. And the involvement of [Russia] will act as a buffer against Iranian objections to western involvement in the project," he said.

Political backing for the Afghan factions has not diminished despite the launch of a new UN initiative to establish a ceasefire. Last week Mr Norbert Holl, UN special envoy to Afghanistan, launched a round of shuttle diplomacy, in an effort to achieve a ceasefire.

For Pakistan, home to 2.5m Afghan refugees, the wish to see a friendly government on its western frontier is paramount. Equally, it would like to see lucrative central Asian trade routes passing through Afghanistan via Pakistan to the Indian Ocean, potentially undermining Russian and Iranian influence.

Despite its close ties with Taliban, such direct interests have led Pakistan to remain on reasonable terms with the northern faction leader General Abdul Rashid Dostum, allegedly supported by Russia and Iran.

"Pakistan has a declared enemy on one side, and cannot have another enemy on the other," said a senior Pakistani military source, going further than most Pakistani officials in acknowledging Pakistan's support for the Taliban.

"There is a convergence of interests between Taliban and Pakistan, as the Taliban want to keep this country united. At the moment it's a military situation," the official said. "It's unfair to judge the Taliban by the current situation. These are very warlike, uneducated people. They are very violent. In order to ensure law and order where there is no police, something different from the normal practices may be successful."

Iran, ruled by a Shia Moslem clerical regime, has played the most active role in forging the alliance against the Sunni Taliban, encouraging the factions led by Gen Dostum and Gen Ahmed Shah Massoud to unite in creating the committee for the defence of Afghanistan in the north of the country.

Cargo flights of the Dostum-owned Balkh Air fly regularly from Mazar-i-Sharif to Masshad, in eastern Iran, aviation officials in Mazar-i-Sharif confirmed. Diplomats close to the alliance have confirmed that weapons supplies are coming from Iran. At least one intelligence service in the region says chemical weapons have been acquired by the northern factions.

Rivalry over Afghanistan has adversely affected traditionally good relations between Iran and Pakistan. Pakistani officials were incensed that Iran recently tried to bring India – which has close ties with Gen Massoud – into the regional equation, by including it in talks on the Afghan conflict in Tehran.

Iran has an ancient rivalry with the Pashtun Afghans from which Taliban is drawn, and is concerned that the Sunni Taliban may dilute Iranian Shia dominance of the Islamic revival.

"Since Iranians are very narrow-minded, they are envious of other peoples' success," said Mr Amid Khan Motaqi, Taliban's acting minister for information and culture, in Kabul.

US officials deny their tacit acceptance of Taliban stems from Iran's opposition to the new regime in Kabul. But as US and Pakistani interests coincide, the US need do little more than have its ally pursue policy on its behalf, avoiding the thorny issue of Taliban's principles, about which Pakistan has no illusions.

"Very few of the leaders in Afghanistan have struggled for principles," said a senior Pakistani official. "They are struggling for power. So a nation bled, and is still bleeding."

Moslem vigilantes in Cape Town clashes

By Roger Matthews in Johannesburg

The South African government warned anti-crime protesters yesterday that it would not tolerate further illegal demonstrations, after serious clashes with police in Cape Town which led to exchanges of gunfire and at least 11 people wounded.

The fighting marked a serious worsening in relations between the police and People Against Gangsterism and Drugs (Pagad), the mainly Moslem organisation which sprang to prominence in August when it shot dead and then set alight one of Cape Town's most notorious gang leaders.

Pagad has accused the government of not doing enough to combat crime, and the police of being corrupt. During the past four months it has staged repeated marches on the homes of suspected drugs dealers, and has several times clashed with police.

On Monday afternoon running battles broke out at Cape Town airport with police firing teargas and rubber bullets after Pagad defied a ban on holding a rally. The clashes worsened early yesterday when police claimed Pagad members opened fire while attempting to storm a court building where emergency applications for bail were being heard for people arrested earlier in the day.

A police spokesman said seven officers had been wounded by gunfire, two of them seriously. Mr Sydney Mufamadi, the minister for safety and security, accused Pagad of acting with total disregard for the law, and said this would not be tolerated. The police were being forced to spend large sums monitoring Pagad rallies which should be spent fighting crime, he said.

Provincial officials also deplored the violence and the damage it would cause to Cape Town, which is South Africa's premier tourist destination and is bidding to stage the 2004 Olympics.

Police said no further talks would be held with Pagad because it had confused fighting crime with causing crime. "Pagad has degenerated into just another gang, and will be treated as such," said a spokesman.

INTERNATIONAL NEWS DIGEST

Battle spreads in Mogadishu

A fresh eruption of violence in Mogadishu, the Somali capital, spread yesterday when another large faction joined the fighting, which has killed more than 135 people and wounded 900 in five days. Militiamen under Ali Mahdi Mohamed, leader of a north Mogadishu alliance, shelled Hussein Aideed's "presidential" palace and other positions held by his forces.

Ali Mahdi's four-wheel-drive "battlewagons" fired cannons at a road junction in south Mogadishu, near the closed airport and residential areas. Hussein Aideed's gunners fired mortar bombs into north Mogadishu in retaliation.

The latest round of violence erupted last Friday, and has killed more than 135 people. *Reuter, Mogadishu*

Tunisia curbs Israel links

Tunisia yesterday became the latest country to put its relations with Israel on hold, blaming the Israeli government's failure to implement agreements signed with the Palestinians. Mr Habib Ben Yahia, Tunisia's foreign minister, told parliament that Israel's settlements policies were in violation of the Oslo peace accords.

Tunisia and Israel established interest section offices earlier this year. Trade is minimal but Israeli officials said it represented a psychological blow for Israel's attempts to normalise relations with the countries of North Africa.

There is also concern about the level of relations with Morocco, which has close ties with Israel and a liaison office in Tel Aviv. Israeli officials said there have been no high-level visits or invitations to Morocco since the election of Mr Benjamin Netanyahu as prime minister last May. Oman and Qatar also recently froze their relations with Israel. *Judy Dempsey, Jerusalem*

UN awards Kuwait $610m

The United Nations body for Gulf war reparations yesterday awarded $610m to the Kuwait Oil Company for quenching some 700 oil well fires started by retreating Iraqi troops in 1991.

The UN Compensation Commission accepted the recommendations of a three-man arbitration panel that these were the verifiable costs of putting the fires out. The company, which put in a claim for $951m, had $3m disallowed, and was told to resubmit the rest as claims for loss of and damage to property. *Frances Williams, Geneva*

Commodities, Page 30

Lebanon gets $3bn aid pledge

More than $3bn of official aid was pledged to Lebanon at a US-brokered donors' conference, the Lebanese government has announced. Officials said more than $1bn was available immediately and a further $2.2bn would finance projects over several years. France, the European Union and the World Bank will be among the largest contributors.

Mr Rafiq Hariri, prime minister and architect of Lebanon's reconstruction programme, proposed at the conference 31 projects worth $5bn and asked for an additional $1bn in loan guarantees. But the sums pledged went beyond Beirut's expectations, and were hailed as a vote of confidence in Lebanon's reconstruction programme. Lebanese officials said a large part would be in the form of soft loans, which will lower the government's borrowing costs. *Roula Khalaf, London*

Nigeria sues Italians in gas dispute

By Paul Adams in London and John Simkins in Milan

Nigeria's Liquefied Natural Gas company is suing Enel, the Italian state electricity utility, for pulling out of a contract to buy $15bn of Nigerian gas over 20 years.

Enel had contracted to buy 3.5bn cubic metres of gas a year, half the output of Nigeria LNG's $3.8bn plant at Bonny, near Port Harcourt, due to start production in 1999.

"That contract was a main element of the shareholders' decision to proceed with the project," said Mr Theo Oerlemans, managing director of Nigeria LNG, a partnership between Shell Gas, the Anglo-Dutch group, Elf Aquitaine of France, Agip of Italy and the state-owned Nigerian National Petroleum Corporation.

Enel claims there is a *force majeure* clause allowing obligations to drop should parties be prevented from going ahead. It said it had to withdraw because a decision not to build an LNG terminal at Montalto di Castro on the Tuscany coast meant the project was no longer economic. It said the environmental conditions attached to building the terminal put the Montalto investment in jeopardy. The cost of unloading the gas in open sea was one of the obstacles.

Enel said: "We are negotiating with Nigeria LNG in order to find the best way of limiting damage arising from this situation."

The project has been beset by political difficulties since first mooted in the 1960s but was revived when Shell took control in 1994. The shareholders took the final investment decision late last year in the teeth of international condemnation of the Nigerian military regime for executing one of its leading critics, Ken Saro Wiwa.

"We don't know why they don't want the gas," said Mr Oerlemans. "They have tried to argue that it is *force majeure*, which we do not accept, and are now saying the gas is not economic. That is no reason to undermine a project."

Nigeria LNG's lawyers say that Enel has effectively terminated the contract and the company has started international arbitration in Geneva to claim damages from Enel.

The rest of the gas is to be sold to utilities in France, Spain and Turkey.

The LNG project is vital to Nigeria's exploitation of its vast natural gas resources, much of which is burned off as a by-product of oil production, and important to Shell's attempt to improve its environmental record in Nigeria.

The project would earn about $1bn a year in exports from early next decade and could lead to more gas developments.

"This decision is totally unprecedented in the international gas industry. Gas companies have to be certain of the other side in such contracts," said Mr Oerlemans.

Japan backs Three Gorges contracts

By Our Foreign Staff

Japan has agreed to provide government financial support for companies bidding for the controversial Three Gorges dam project on China's Yangtze River, Kyodo, the Japanese national news agency, reported last night.

Kyodo cited sources in the Ministry of International Trade and Industry as saying export credit insurance as well as loans from its Export-Import Bank would be available to fund the project which will displace more than 1m people and create a lake 660km long in Hubei province.

The decision came on the eve of today's deadline for bids sought by China for the supply of 14 turbines, each of 700MW, and is likely to boost the chances of a Japanese consortium incorporating Mitsubishi Heavy Industries, Mitsubishi Electric, Toshiba and Hitachi, which has been preparing a bid for the business.

Japan's readiness to finance the deal is in stark contrast to the US whose Eximbank said earlier this year that it was refusing finance after protests from environmentalists.

Kyodo said the Japanese government had decided the project would not cause environmental damage after conducting local surveys. Its enquiries had also shown that people who were displaced would be compensated.

Among other groups which have shown interest in the dam is a consortium comprising ABB of Sweden, Kvaerner Industries of Norway and GEC Alsthom, the Anglo-French Group. ABB said in October it had asked the Swiss government for export credit guarantees.

Another group comprising GE Canada, Voith and Siemens has also been preparing a bid. Canada has said it would provide funding. Russian companies have also expressed interest.

The dam is expected to cost $30bn and become operational in 2003, generating 18,200MW of electricity.

The order for 14 turbines to be installed represents the first large contract for the project. China is expected to have a further 12 turbines operating on the other bank but these will be manufactured domestically.

Four Upholder submarines at VSEL in Barrow. They would help Canada to retain a significant naval capability Ashley Ashwood

Special fuel cells may revive UK-Canada submarine deal

By Bernard Simon in Toronto

Canada has shown renewed interest in buying four almost new diesel-electric submarines from Britain.

A deal for the Upholder class boats has been under negotiation for more than two years, and came close to being finalised last spring. But Mr Jean Chrétien, Canada's prime minister, has balked at a big military purchase when budget cuts have trimmed spending on social security and health.

UK and Canadian officials expressed cautious optimism however, that the deal would be revived after the next general election in Canada, expected to be called within the next nine months.

Mr Doug Young, who recently took over as defence minister, said this month that as a member of Nato and Norad (North American Aerospace Defence Command) "we must decide if we can properly safeguard Canada's sovereignty with a navy composed solely of surface ships. . . If we allow our submarine capability to lapse, we would have great difficulty re-establishing it."

The renewed Canadian interest has also been triggered by research at Ballard Power Systems, a Vancouver-based technology company, into the use of long-life fuel cells as a power plant for submarines.

Ballard, which also makes fuel cells for surface vehicles such as buses, delivered two test plants earlier this year to Howaldtswerke-Deutsche Werft, the German submarine builder.

The cells, which convert hydrogen into electricity without combustion or pollution, would enable the Upholder boats to operate under ice. The Upholders are currently fitted with diesel-electric engines.

A Ballard official declined comment on the company's role. Ballard recently got C$30m (US$22m) in financial support from the federal government to develop stationary power plants for hospitals, schools and factories.

The four Upholders, which cost about £1bn ($1.64bn) to build, were put up for sale after the Royal Navy opted for an all-nuclear submarine fleet in the early 1990s.

Canada has been toying for some time with a replacement for its three 30-year-old Oberon boats. Other Nato members have urged Ottawa to buy the Upholders, which would allow Canada to maintain a significant naval presence in the alliance. The boats would also be used to train UK and US submarine crews.

The UK has offered the boats to Canada at what it considers to be a bargain price of about C$400m, with payments spread over 10 years, and part of the cost to be paid in the form of training for Royal Navy crews.

WORLD TRADE NEWS DIGEST

GE in China power deal

GE Capital, a subsidiary of General Electric of the US, yesterday signed a $250m agreement with the Shanghai power bureau to upgrade and operate a 400MW gas turbine power plant.

Mr Peter Geldart, managing director of GE Capital Asia Pacific, described the agreement as a "milestone" and said it was the "first long-term, non-guaranteed commercially financed power project in China".

A consortium of foreign banks led by Standard Chartered arranged a $124m loan for the project without Chinese sovereign guarantees, a stumbling block for other power projects.

Mr Gareth Bullock, head of corporate banking at SCB, said financing was the "first non-recourse commercial loan for a power project in China." The project is being funded with 30 per cent equity and 70 per cent loans.

Mr Geldart said GE, which is supplying four gas turbines, had gone ahead with the project because "we are dealing with a first-rate power bureau." The project also had the support of the Shanghai municipal government. GE Capital will hold 30 per cent equity and the Shanghai power bureau 70 per cent in the project which will run for 17 years under built-operate-transfer arrangements. *Tony Walker, Beijing*

Mercosur plans regional bank

Mercosur, the four-nation Latin American trade grouping, yesterday announced plans to set up a development bank to provide capital for infrastructure projects in the region. Although details of the institution are still to be decided, officials said the bank would have a capital structure, credit facilities and rules of operation similar to other international financial institutions.

The members of the customs union – Brazil, Argentina, Paraguay and Uruguay – also signed an agreement giving "associate" membership to Bolivia, which will also participate in the new financial institution. Bolivia becomes the second country to become an associate member of Mercosur, after Chile. *Geoff Dyer, Fortaleza*

Swedes invest in east Europe

AssiDomän, the Swedish forest products group, is to invest $30m in a new corrugated board plant in the Czech Republic, which it hopes will spearhead a drive into central and eastern Europe over the next three years.

The plant, near Prague, will supply the German and Austrian markets as well as aiming for a 9 per cent share of the Czech market.

Mr Lars Richardson, president of AssiDomän Packaging, said the plant would be a hub for a drive into Russia, Poland, the Baltic states, Slovakia and Hungary through new plants and acquisitions.

The company is currently building a new box plant in St Petersburg. *Vincent Boland, Prague*

Shell in Philippines deal

Pilipinas Shell, the Philippine subsidiary of the Anglo-Dutch oil group, has signed a two-year $64m contract with the state-owned National Power Corporation (Napocor) to supply 6.5m litres of fuel oil and 6m litres of diesel a month.

Napocor recently signed a contract with Petron Corporation and is expected to approve another with Caltes Philippines. *Justin Marozzi, Manila*

هكذا من الأصل

Move certain to raise interest in links with Asian business concerns

Clinton backs return of funds

By Jurek Martin in Washington

President Bill Clinton yesterday said his Whitewater legal defence fund was right to return more than $600,000 in contributions from a Chinese-American acquaintance in Arkansas.

The president said he was unaware that Mr Charles Yah Lin Trie, previously a restaurateur in Little Rock, had been raising money on his behalf before being advised by Mr Michael Cardozo, the fund's director.

Mr Clinton defended Mr Trie as a classic hardworking immigrant. But he added that "even any appearance of impropriety should be removed," which had been a concern of Mr Cardozo.

This is not the first time Mr Trie's name has cropped up in the political fundraising controversy. Earlier this year the Democratic National Committee returned a $15,000 contribution from his trading company, having ascertained the source of the donation was from outside the US.

Mr Cardozo's announcement late on Monday is certain to heighten interest in the connections between Mr Clinton, his party and Asian business concerns. The Indonesian Lippo conglomerate previously employed Mr John Huang, the former commerce department official responsible for party fundraising, while its controlling Riady family got to know Mr Clinton while he was governor of Arkansas and has been invited to the White House.

The most immediate impact, however, is on the defence fund itself. The $639,000 donated by Mr Trie comprises about a third of the amount raised to date to offset the First Family's mounting legal costs, now believed to run into several million dollars.

This is well beyond the Clintons' known personal assets. They have required legal advice not merely to handle the several Whitewater-related probes but also the sexual harassment suit brought by Ms Paula Jones against Mr Clinton.

The Clintons' financial plight is commonplace in Washington, where several officials from the Clinton and Bush administrations, ranging from Ms Janet Mullins, political director in the Bush White House, to Ms Margaret Williams, chief of staff to Mrs Hillary Clinton, have incurred legal bills far exceeding their salaries and assets.

Ms Mullins was eventually exonerated by a special investigator for allegedly having taken part in the state department's alleged search of Mr Clinton's passport records during the 1992 campaign and has received partial financial recompense.

Even Mr George Stephanopoulos, the soon-to-depart senior aide to Mr Clinton, has estimated he has run up $70,000 in affidavit and other legal costs even though he has been neither accused nor suspected of any wrongdoing. The $3m book contract he signed this week means he can meet the costs.

Clinton: 'appearance of impropriety should be removed'

Lower loan rates lift US housing starts

By Gerard Baker in Washington

US housing starts jumped by 9.2 per cent in November from a month earlier, following declines in the previous two months, the commerce department reported yesterday.

The increase, to a seasonally adjusted annual rate of 1.51m, was the biggest since July 1995, and followed other recent evidence of a slight quickening in the US economic pulse towards the end of 1996.

The drop in housing starts in September and October had been widely seen as evidence that the economy was losing steam after its strong growth in the first half of the year. New housing construction accelerated gradually through early 1996 and hit a peak in August, before falling back in the autumn.

But yesterday's figure suggests demand may have revived somewhat last month, helped by a steep fall in mortgage rates over the last few months.

The news troubled the bond market, as it came on the day the Federal Reserve's open markets committee met to discuss interest rate policy.

The benchmark 30-year treasury bond fell by 11/32 shortly after the figures were published, raising the yield to 6.68 per cent.

The Fed, however, as widely expected, left rates unchanged at yesterday's meeting, although further evidence of strengthening in the economy over the next few months could force it to tighten policy in the first half of 1997.

Regionally, the strongest increase in house building last month occurred in the Midwest, where housing starts leaped 21 per cent from a month earlier. There was also impressive growth in the south, while the north-east and the west remained flat.

Nationwide, single family housing starts rose 7.6 per cent, while multi-family construction increased 15.1 per cent. Building permits for house construction, a useful guide to future building trends, increased 3.9 per cent in November, the largest gain for a year.

Market crash 'would benefit US economy'

By Christopher Parkes in Los Angeles

A US stock market collapse would probably do the US economy more good than harm, according to the latest forecast from the University of California, Los Angeles.

Long-term interest rates would fall quickly, extending the rally in the bond market and setting the stage for strengthening in the construction market.

Lower mortgage costs could translate into higher home prices, which would lessen the impact on consumer wealth. The chance to buy equities with better yields might even please fund managers and long-term individual investors.

"A decent collapse in the stock market would be nice right now," wrote Mr Larry Kimbell, director of the UCLA Business Forecasting Project, in the school's quarterly report. "We need a break for a change."

Mr Kimbell was responding to recent gentle warnings of "irrational exuberance" from Mr Alan Greenspan, head of the Federal Reserve, and noted the hint was a reminder "that there is no such thing as letting the air out gently" from a speculative bubble.

However, a 36 per cent stock market decline – as experienced between late August and October in 1987 – would still leave the Dow Jones Industrial Average index almost 2.5 times higher than the low point reached in that collapse.

According to Mr Kimbell's report, the slow pace of the current bout of expansion suggests it could be one of the longest in recent history, exceeding the record set between 1961 and 1969.

"We do not deserve a recession since we do not have an acceleration of inflation to reverse," he wrote.

There was no need for inventory corrections, the residential and non-residential construction sectors had not over-built, and real consumption spending was in line with real gains in disposable incomes.

Real growth in gross domestic product slowed from an "unsustainable" 4.7 per cent to a "healthy" 2 per cent in the third quarter, and the economy was expected to return to its trend growth rate in the mid-2 per cent range.

"The first successful soft landing of the US economy continues," the report added.

Meanwhile, the local Californian economy is generating new jobs faster than in the country as a whole, and employment in manufacturing is growing, in contrast to an overall decline.

In the four quarters to the end of September the state added 70,000 manufacturing jobs while the nation lost 170,000, the report said.

In the next three years, California – which accounts for 12 per cent of the US population – will create more than 15 per cent of the projected national employment increase of 6.2m.

Labour reform test for Menem

Doubts surround proposed changes, write Stephen Fidler and David Pilling

President Carlos Menem of Argentina won re-election last year after a campaign pledge to "pulverise" unemployment. Since then he has blamed the country's rigid labour laws for keeping the jobless rate higher than it should be.

Yet while proposed labour law reforms now before Congress are intended to address this problem, there are strong doubts in Buenos Aires that the proposed changes will have much short-term impact on the jobless total.

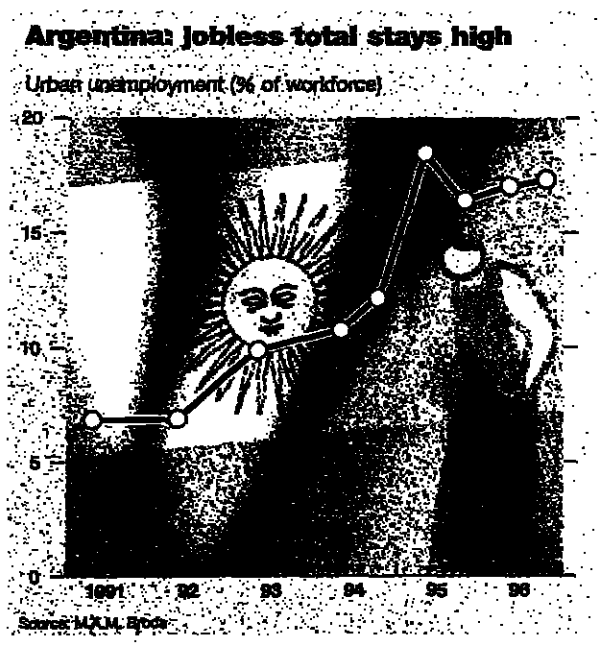
Unemployment has risen consistently in the 1990s, despite rapid economic growth in the early part of the decade. But it surged during last year's recession and reached, according to government figures, a peak of 18.4 per cent in May that year. This has since fallen slightly – to 17.3 per cent – according to figures released at the weekend. But about 2.4m people are still out of work, three times the number in 1991.

This is damaging Mr Menem's popularity and his rating has sunk in opinion polls, which also show that joblessness is widely perceived as the country's main problem. A recent poll showed 48 per cent of people viewed unemployment as a priority, with 19 per cent seeing corruption as the greatest concern.

The labour market reforms would do three things: encourage decentralised collective bargaining; change the system for redundancy payments to create individual worker accounts; and alter the health insurance regime to avoid what for many employers is a double payment.

The government has already decreed changes to the health insurance system that will next year introduce competition from private sector health organisations to the trade unions that run the current system. The other two reforms await congressional approval.

Mr Carlos Rodriguez, adviser to the economy ministry, argues that the labour reforms are "very important". He adds, however, that flexibility has improved significantly in recent years thanks in part to changes already made to labour laws.



"The labour market is already completely different from what it was in the 1980s. But whatever we do to help unemployment is important. If we have an instrument, we have to try to use it because unemployment has to come down."

However, further labour reform is tricky for Mr Menem's Peronist party, since much of the legislation dates back to the era of former president Juan Perón.

According to Mr Antonio Cafiero, a Peronist senator, the proposed reforms should pass – but with modifications to make them more acceptable to the party's trade union supporters. Such a compromise, which may include a transition period for some aspects of the legislation, is now said to be under negotiation with the unions.

But even if the reforms are not watered down, their ability to ease unemployment quickly is doubted.

Mr Mario Vicens of the economic consultancy Macroeconomica says: "In the short term it would make little difference in helping bring about a fall in unemployment, a problem that's related to the level of economic activity in Argentina."

The main impact of the law over time would be to bring a greater portion of the workforce into the formal sector, he says.

Indeed, the impact of the measures is expected to be limited by the size of the black economy – where complete labour flexibility reigns. The country's unemployment figures – unlike those, for example, in Mexico and Brazil – include the informal economy, which by most estimates accounts for 40-50 per cent of Argentine employment.

Mr Rosendo Fraga, a political analyst, says unemployment in the formal economy is running at about 8 per cent. However, if the economy continues to grow, the informal economy should generate more jobs than most economists think.

But even if the legislation encourages the movement of more workers into the formal economy, it will not have much effect on the jobless total.

Ms Débora Giorgi, partner at the Alpha economy and business consultancy in Buenos Aires, says the current rules on worker dismissal are not, in any case, a significant cost for large companies.

Previous legislation has already provided greater flexibility to small and medium-sized companies that generate most employment in the economy: 73 per cent of workers are employed by businesses with fewer than 50 people.

These businesses increased their use of labour between 1984 and 1994, but, given low labour productivity, are likely to try to become more capital intensive as they gain access to capital during the economic recovery. This suggests they will not create many jobs as the economy grows next year, she says.

However, she believes the collective bargaining reform would be an important change, albeit one that would benefit existing companies, some of which have labour contracts in force since the mid-1970s, rather than new investors which are able to negotiate contracts on arrival.

"This change could reduce by 15 per cent the labour costs of the telephone and electricity companies," she says.

Many economists say the main disincentive to hiring new workers in the formal economy is Argentina's payroll tax, which with other levies adds an average 41 per cent to labour costs over and above salaries.

Although the government has often expressed a wish to reduce the payroll tax, it is one of a few important taxes that central government does not have to share with the provinces, which now account for half government spending.

At a time of budget stringency, abolishing the payroll tax is likely to take second place to financial necessity.

Timothy Ross on a steady increase in domestic addicts

Colombia in heroin's grip

After years of lucrative criminal exports, heroin addiction is turning into a domestic problem in Colombia. Long ignored, use of locally produced, high-purity heroin has reached a level which one doctor describes as "a grave public health problem".

The government has begun to recognise the seriousness of the problem and earlier this month in Medellín sponsored the first Colombian conference on heroin use.

The conference was financed by the government national drugs directorate to prepare key healthcare workers for what is feared will soon be a new drug epidemic. Experts from Spain, Colombia and Chile addressed more than 60 doctors, psychiatrists, social workers and therapists.

The signs of opium-related abuse have been growing rapidly over the past three years.

The country's first attempts at commercial opium farming date back to 1978, when two Mexicans distributed poppy seeds to peasant farmers in Cauca and Huila departments and bought their harvests of raw opium gum. By 1994 locally made heroin analysed in the Bogotá toxicology clinic tested at more than 65 per cent purity and was being exported through traditional cocaine smuggling routes to the US.

Leaders of the Cali drugs cartel pioneered large-scale heroin production in a shifting alliance with leftwing guerrillas, and brought in Sicilian, Afghani and Asian heroin chemists to improve refining techniques.

Recent samples have tested at 94-96 per cent purity.

Small amounts of opium, morphine and heroin began to slip on to local markets, mostly bought by wealthy drug users. Cases of heroin dependency began to appear in the late 1980s, and in 1993 the first heroin overdose death was reported.

Dr Camilo Uribe, a prominent poisons expert, told the Medellín conference that in just one Bogotá public hospital there was an average of three heroin overdose cases per month.

"Cocaine overdoses are steady in fifth place of all emergency room acute poisonings, but heroin overdoses, not registered three years ago, have now jumped to seventh place."

Dr Uribe said heroin, according to patient case histories, was first given away and frequently exchanged for sexual favours. He was incensed by reports that adolescents were being used as couriers, who were then paid for their services in the merchandise.

"Heroin is already a grave public health problem," said Dr Uribe, "and must be treated as a catastrophic disease of extremely high social cost."

Dr Augusto Pérez, Colombia's principal addiction expert, warned that there would be an impact on public health, as heroin injecting spread HIV, hepatitis B and other blood-borne diseases. Addiction also contributed to street crime.

"Colombian heroin users used to be mostly from the upper classes, who sniffed or smoked it but rarely injected.

"But in the last year we have had a completely different trend, people using local heroin coming from the lower classes, spending a lot of money and who are interested in trying injections," he said.

At least 6,000 Colombians are estimated to be addicted to heroin, and Dr Pérez calculates their numbers are increasing at such a rate that within four years Colombia will experience a full-blown outbreak of heroin abuse.

Mr Carlos Lemos Simmonds, Colombia's new vice-president, said yesterday that a landmark law aimed at bankrupting the nation's billionaire drug barons should make the US rethink its policy towards the country.

He said Colombia would reap huge benefits from the new measure, but added that Washington should also look to its own backyard in its war against drugs.

"If the US were doing one half of what we are doing to stop production, the situation would be very different," Mr Lemos said. He was elected vice-president in September but remains in London as Colombia's envoy to Britain.

Last week Colombia's Congress approved a forfeiture law entailing the seizure of illicit gains made by drug barons over the past 20 years.

NEWS: ASIA-PACIFIC

Ministers plan reduction in business costs, easing of state controls and creation of 7.4m jobs

Tokyo cabinet adopts economic reforms

By William Dawkins in Tokyo

The Japanese cabinet yesterday adopted an economic reform plan designed to reduce high business costs to the level of the country's main competitors by 2001.

The scheme, the latest in a series of deregulation packages over the past three years, envisages that state controls should be eased and an additional 7.4m jobs be created by 2010 in 15 strategic sectors.

These include information and telecommunications technology, biotechnology, aerospace and health and welfare.

The Ministry of International Trade and Industry (Miti) is to co-ordinate implementation of yesterday's policy framework, which includes 500 concrete reform ideas. It plans to produce a detailed work programme by the end of March, to be followed by an annual progress review. Miti officials said 15 economic reform bills would be ready for consideration by the next parliamentary session in the New Year.

The scheme calls for a reduction in energy costs to European levels, which are about 20 per cent lower. It also calls for the formation of more new businesses through a more active venture capital industry and an easing in legal constraints on the type of jobs handled by private sector recruitment agencies.

Senior Miti officials said the plan was the clearest sign yet of the hardening of a consensus for economic deregulation among policymakers. It follows the government's commitment last month to a five-year financial reform plan and its agreement partially to dismantle Nippon Telegraph and Telephone, the dominant domestic telecoms company.

The new Liberal Democratic party minority government has, contrary to rivals' expectations of continued conservatism, made economic deregulation a priority.

Business lobbies' and consumers' discontent with high domestic costs and prices were increasingly evident in the run-up to the October general election.

It is not yet clear how far other government ministries will respond to Miti's call for action, given traditional reluctance to tolerate a cut in their own powers.

Nor is it clear whether Mr Ryutaro Hashimoto, the prime minister, will be able to obtain opposition parties' necessary support for the busy legislative programme needed to turn the deregulation plan into reality. To complicate matters even more, his own party remains divided on the merits of reducing government control of the economy.

Private sector analysts remain sceptical. "The consensus for deregulation has become established wisdom, without being subjected to much critical scrutiny," said Mr Jeff Young, political analyst at Salomon Brothers Asia. "There is much political uncertainty over whether the government can implement it."

But Mr Osamu Watanabe, director-general of Miti's industrial policy bureau, which was responsible for drawing up the scheme, said there was a strong political consensus behind the package.

"Consensus building is a time-consuming process in this country. But once the consensus is built, things move fast. If there is any delay in carrying out this plan, companies will just bypass Japan for more competitive countries," he said. The current initiative gave a clear focus to previous piecemeal efforts at deregulation – discussion has been going on for the past decade but has rarely won political consensus – by focusing on the promotion of emerging sectors, and cutting business costs.

Mr Hashimoto called for the latest plan, plus a financial market reform package unveiled in November, soon after winning the election two months ago.

Its successful implementation will depend, say observers, on whether there really is a consensus for change.

NZ bank cautious on wider inflation target

By Terry Hall in Wellington

Mr Don Brash, governor of New Zealand's central bank, yesterday responded cautiously to the new coalition government's announcement widening the bank's inflation target.

Mr Brash said the broadening of the target to 0-3 per cent from 0-2 per cent was a modest change.

Under New Zealand legislation, the central bank – the Reserve Bank – is independent of the government and is obliged to maintain inflation within the guidelines. If it falls outside the guidelines, the government can replace the bank's governor.

"We previously aimed at inflation of 1 per cent. It is now 1.5 per cent," Mr Brash said. He warned the bank would be uneasy if inflation rose to near the maximum 3 per cent allowed.

In the Reserve Bank's six-monthly economic statement, Mr Brash said increases in imports and price increases in the housing market, plus the planned rise in the minimum wage, required the bank to continue to be cautious about the outlook.

He welcomed signs of falling inflation and indicated the economy's rate of growth was slowing.

In his statement he emphasised the bank would prefer a lower exchange rate and higher interest rates to curb inflationary pressures.

Mr Brash said the coalition's plan to increase the minimum wage from NZ$6.375 (US$4.48) to NZ$7 an hour, review the minimum wage for those under 20 years of age and possibly to increase the minimum wage to NZ$7.50 in 1998 seemed likely to increase unit labour costs.

As part of the coalition deal, the NZ$1bn in cuts due to take place in July 1997 have been deferred but government spending has increased by $1.2bn.

Mr Brash said the government's plans represented a more restrained fiscal stance than many in the market had expected and was a major reason for the sharp easing in monetary conditions after announcement of the coalition.

He said the referendum on compulsory superannuation to be held in 1997 made it difficult to assess the implications of the new track, because if a compulsory scheme was put in place it would significantly offset the projected fiscal stimulus. The referendum will be in the third quarter of 1997.

Hong Kong chief urges UK to face reality

By John Ridding in Hong Kong

Tung Chee-hwa: 'wrong to ignore reality of the provisional legislature' Reuter

Mr Tung Chee-hwa, the shipping tycoon selected as Hong Kong's first post-colonial governor, yesterday urged the UK and Hong Kong governments to "face reality", criticising their opposition to Beijing's plan for a new legislature for the territory.

"It is wrong for Britain and Hong Kong to ignore the reality of the provisional legislature," he said, referring to the body which will replace the existing elected Legislative Council when sovereignty is transferred to China on July 1 next year.

Mr Tung's statements, his strongest on the issue, came in his first important speech since being selected last week as Hong Kong's first chief executive, as the next governor will be known.

After his speech, he left for Beijing, where he is expected to meet President Jiang Zemin and Prime Minister Li Peng.

The provisional legislature is due to be formed this weekend in a meeting in Shenzhen, just across the border from Hong Kong. Its 60 members will be selected by a 400-member committee which was itself formed earlier this year by a Beijing-appointed body.

The legislature has emerged as one of the most serious obstacles to a smooth transition for Hong Kong. Opinion polls suggest many in the territory are resigned to the new body, but pro-democracy politicians warn that the lack of an elected legislature will undermine government accountability.

Mr Tung sought to allay concerns about the legislature, arguing it would last for a maximum of one year and new elections would be held as early as possible.

Responding to critics of the selection process, Mr Tung said: "I believe the members of the provisional legislature will have a high degree of credibility."

The shipping tycoon also dismissed doubts about the legality of the planned body. "I believe it is legal," he said. "In any case, even the best legal expert in Hong Kong confirmed that the question of legality can be settled once and for all by another act by the standing committee of China's National People's Congress."

He appeared to be referring to comments made by Sir Ti Liang-yang, the former chief justice, and a rival for the top post.

Mr Tung's firm stance on the provisional legislature could complicate his selection of an executive team, expected to be announced in the next few weeks.

Mrs Anson Chan, the chief secretary, is a staunch critic of the planned body; Mr Donald Tsang, the financial secretary, has also expressed his opposition.

The chief executive-designate said yesterday he would seek to ensure a smooth transition in the civil service, while China signalled its desire for continuity in the administration. "We hope senior public servants in Hong Kong will maintain their position," a foreign ministry spokesman said in Beijing.

In his speech to businessmen, Mr Tung stressed the need to fight against corruption, one of the main concerns ahead of the handover. "We must further increase the degree of transparency in the decision-making process . . . ensuring money and politics do not mix."

Editorial Comment, Page 19

Manila pilots' dispute settled

By Justin Marozzi in Manila

Philippine Airlines (PAL), the loss-making national carrier, has reached agreement with the country's pilots' union, it said yesterday. The peace deal ends a long period of strikes and disruption.

PAL said the two sides had "successfully negotiated terms for their new collective bargaining agreement".

The agreement covers compensation, manning levels on long-haul flights and work rules "based on the concept of more pay for more work".

It follows a prolonged tussle between PAL and its employees over pay and staffing levels, most recently when 9,000 workers staged a "wildcat" strike shortly before Manila hosted the Asia Pacific Economic Co-operation (Apec) forum last month.

On that occasion, employees returned to work only after the airline threatened them with summary dismissal.

Last week, Mr Lucio Tan, PAL's chairman, said the airline was cutting its $4bn expansion programme after a labour department ruling requiring it to give pilots an annual 15 per cent pay rise for the next five years.

Mr Tan, a leading Chinese-Filipino businessman, called the ruling "unreasonable".

It is not yet known whether the scrapping of orders for at least 27 Boeing and Airbus aircraft, an integral part of the modernisation programme considered essential to PAL's return to profitability, will go ahead.

PAL, which last year lost more than 2bn pesos ($76m), declined to comment.

East Asian exports to bounce back

By Peter Montagnon, Asia Editor, in London

East Asia's exports should recover to show a growth rate of 10-15 per cent next year after rising by only 5-7 per cent in 1996, Mr Michael Walton, chief regional economist at the World Bank, said yesterday.

In a short assessment of the region's prospects, Mr Walton said the slowdown in growth, which featured a sharp fall-off in exports, was cyclical rather than structural. The bank is thus putting its weight behind the consensus view that there is no long-term threat to growth in the region.

Even among countries with the weaker performance this year, there were signs of strength. Thailand had a balance of payments deficit in excess of 8 per cent of gross domestic product, but it had a strong fiscal position and a high savings rate, he said.

Among the factors behind this year's poor export performance were the collapse in the market for computer chips, slower demand in the industrial world, the weaker yen and tax shifts in China that caused a spurt in exports in 1995.

But things are already improving and regional growth should recover to about 8 per cent in coming years, slightly below the 9 per cent in the first half of the 1990s but above the 7 per cent recorded in the 1980s.

Mr Walton said the region faced some important challenges in provision of infrastructure, income distribution, labour skill development, the environment and the development of financial markets.

The region's governments had shown an ability to rise to such challenges over the past 30 years. Nor would growth necessarily slow while these problems were being dealt with. East Asian governments should develop pension funds and other mechanisms for helping income distribution, leaving governments responsible only for a basic safety net.

Exports in 1997 should show growth of 10-15%

Investment in Chinese infrastructure has been running at 5 per cent of GDP. Even at this base level infrastructure investment will help sustain economic growth.

Mr Walton said only about 10 per cent of infrastructure spending came from the private sector. That share would rise to 30 per cent over time, though in Malaysia it could run as high as 70 per cent.

The bank placed emphasis on private-sector involvement in infrastructure, but the public sector would thus have to do so as well. "That will involve the public sector in getting greater internal efficiency," he said.

Export performance had varied. South Korea, Singapore, Thailand, Hong Kong and China had shown only small growth or actual falls. Better performance had come from Malaysia, Indonesia, the Philippines and Vietnam, where exports had risen 25 per cent this year.

Thais pledge sharp cuts in spending

By Ted Bardacke in Bangkok

Thailand's new finance minister, Mr Amnuay Viravan, yesterday proposed slashing government spending by as much as Bt20bn ($782m) in the current fiscal year.

The cuts were needed to make up for an expected shortfall in revenue caused by slowing economic activity, including a sharp fall in exports, Mr Amnuay said, unveiling his economic programme.

He pledged to keep the budget in balance and hoped to maintain the Thai government's traditional budget surplus. Projects to be cut were those of "low priority and high import content".

Some of the money saved, along with increased savings from provident funds early next year, could be injected into the money market to create the right climate for lowering interest rates, Mr Amnuay added. High interest rates, now around 13 per cent, are partly to blame for Thailand's economic slowdown.

He forecast growth of 7-7.5 per cent for the next three years, inflation at 5 per cent next year, and export growth of 7-10 per cent in 1997 and more than 10 per cent subsequently. He predicted a fall in the current account deficit next year to 7.5 per cent of gross domestic product, against 8.2 per cent this year.

This improvement would bolster investor confidence, with enhanced foreign funds easing tight liquidity. Measures to deal with the ailing property sector, and a bail-out of the Bangkok Bank of Commerce (BBoC), should also help.

The government yesterday announced it would absorb up to Bt85bn in bad and doubtful debts from the BBoC and, by March, auction 51 per cent of the bank, which it took over earlier this year.

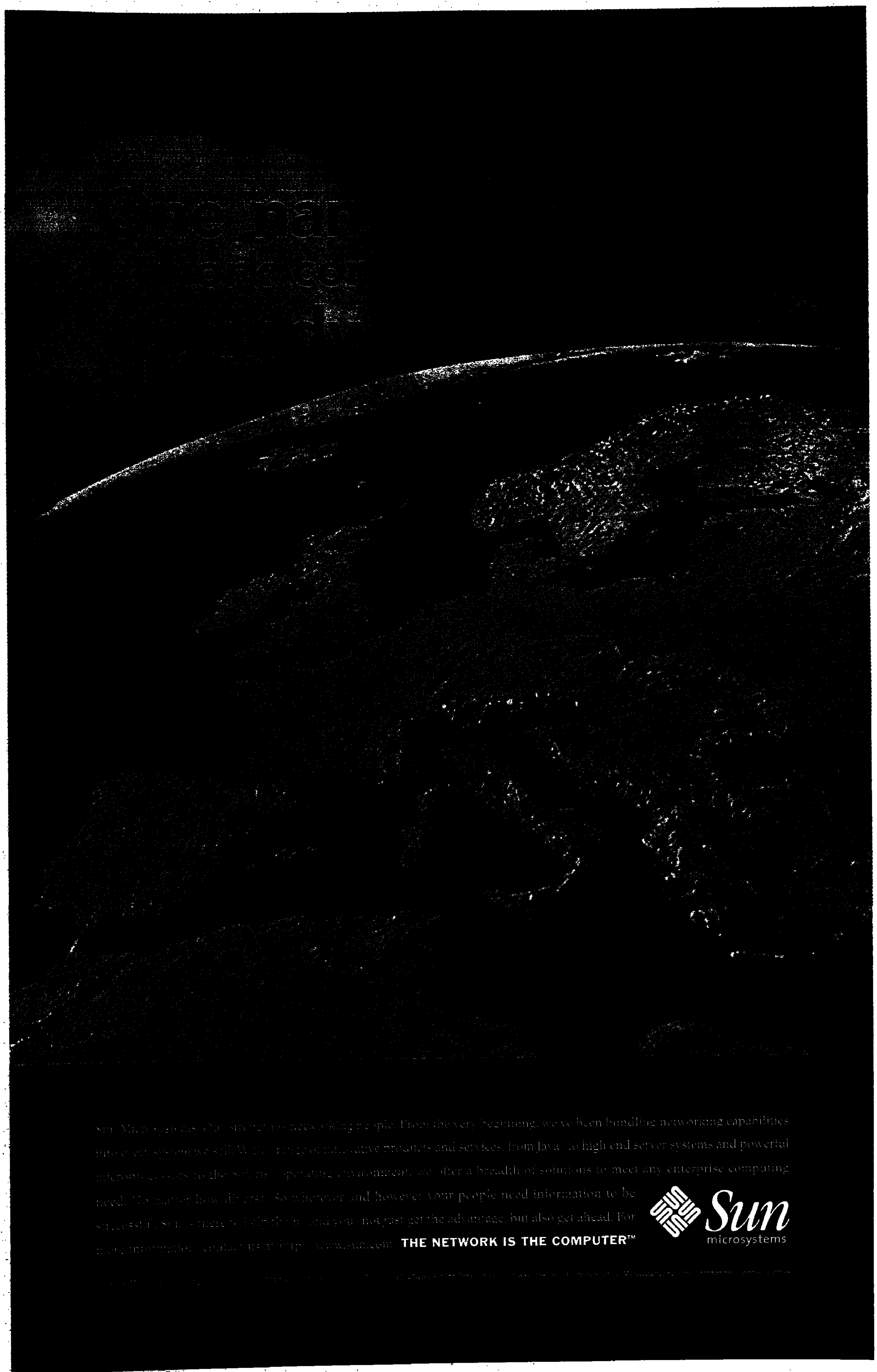
The sale was likely to yield about Bt54bn, Mr Amnuay said, and the government would be able to get back more through loan recovery and a sale of collateral.

On the property sector, Mr Amnuay was less specific, saying that an easing of tight liquidity would help reduce property company interest burdens.

He said the government would extend payment terms for property company creditors, introduce measures to stimulate housing demand and push for a revised securitisation law to provide a new funding alternative for property developers.

A proposal to let foreigners own land and buildings will also be put forward.

Observer, Page 19


THE NETWORK IS THE COMPUTER™
Sun
microsystems

NEWS: UK

Strasbourg judges uphold former chairman's complaint about trial fairness

Ex-Guinness chief wins rights appeal

By Robert Rice and John Mason

Colin Beere

Meeting the press: Mr Saunders told reporters he had been subjected to an unfair process

Mr Ernest Saunders, the former Guinness chairman jailed for theft and false accounting after the company's 1986 takeover of Distillers, did not receive a fair trial, the European Court of Human Rights ruled yesterday.

The Strasbourg judges decided by a majority of 16 to four that aspects of his trial in 1989 were "a remarkable departure from one of the basic principles of fair procedure". They were referring to the use by the prosecution of incriminating answers given by him under compulsion from inspectors from the UK government's Department of Trade and Industry.

But the judges rejected his claim for £4.6m ($7.6m) compensation and refused to clear his name. The court refused to speculate whether he would have been acquitted if the incriminating transcripts had not been used. Its finding that his trial amounted to a breach of the European Convention on Human Rights was not to be taken to suggest that, it stressed.

Mr Saunders's application for £340,000 costs was reduced to £75,000, which the UK government was ordered to pay. Mr Saunders was convicted of fraud – along with Heron chairman Mr Gerald Ronson, stockbroker Mr Anthony Parnes and financier Mr Jack Lyons – over their roles in an illegal share support operation during the Distillers takeover. His five-year sentence was halved on appeal and he was later released prematurely on medical grounds.

At a press conference in London after the court decision, Mr Saunders said that he would have been acquitted if the DTI inspectors' evidence not been used.

Having read out a quick statement in which he alluded to his subjection to "an unfair and politically managed process", he handed proceedings over to Mr George Devlin, his "human rights consultant".

Questions were all fielded by Mr Devlin, and the conference rapidly descended into farce. Mr Devlin said Mr Saunders had not expected to receive compensation and it was "not an issue". The doctor who had diagnosed him as having Alzheimer's, leading to his early release from prison, had admitted publicly that he had got it wrong, he said.

Asked repeatedly whether he was "a crook" or whether he now regarded himself as innocent, Mr Saunders managed: "Well, I do . . .", before Mr Devlin again jumped in.

When the questioning turned to what Mr Saunders was now doing to earn a living, Mr Devlin brought the conference to an abrupt end amid chaotic scenes.

The DTI said it would study the Strasbourg decision. It joined the Serious Fraud Office in pointing out that Mr Saunders's conviction had already been reviewed and upheld twice by the Court of Appeal.

Editorial Comment, Page 19

N Sea exploration bids to be liberalised

By Leyla Boulton, Environment Correspondent

The UK government yesterday proposed liberalising its system for licensing North Sea oil and gas exploration and development rights in an effort to speed up the exploitation of remaining reserves.

Lord Fraser, the energy minister, said companies should be allowed to nominate any parts of the remaining North Sea fields they wanted to develop. The government could then allocate the blocks after reviewing the proposals.

At the moment the government identifies blocks for which companies are invited to bid. Lord Fraser said the proposal, from companies, aimed to make the UK's licensing system more flexible. Officials said it was also better suited to the use of new exploration technology in mature North Sea fields.

"We're pleased with the co-operation across the industry which led to the proposal and we're pleased with the announcement," said Shell, one of the groups which proposed the change.

Analysts said the proposal was in response to the fact that the most attractive North Sea reserves had already been snapped up in previous government tenders.

This is saying "this is a bit fallow but if you are interested come and bid for it", said one analyst. He added that the move would "probably attract smaller companies who might otherwise be frightened of being outbid by bigger companies".

If the proposal is approved during consultations over the next few months, officials plan a "very tight timetable" under which companies would submit their proposals under the new system by November next year.

Lord Fraser said the plan would also put the onus on companies to identify and address "potential sensitivities or conflicts of interest with other sea users". This included possible clashes with the fishing industry, environmentalists and military units which used the sea for exercises.

The proposals do not affect the 17th bidding round currently under way. The government also proposed to allow US-style cash auctions for reserves in certain circumstances – for instance, when work programmes proposed by different oil companies were likely to be identical.

Cabinet paper dashes last Eurosceptic hopes

By Robert Peston, Political Editor

A cabinet briefing paper on European economic and monetary union, which has been sent to senior ministers, dashes any residual Eurosceptic hopes that the prime minister will abandon his "wait and see" approach to the project.

"It completely underpins everything that the prime minister and the [chief finance minister]have been saying, that there will be no opportunity to take a firm view on whether or not to join a single currency until after the general election," said a minister.

The cabinet is to meet tomorrow and is expected to give the final seal of approval to retaining the option to join the currency.

In a separate helpful development for Mr Major, there are indications that several leading Eurosceptic backbenchers are ceasing their public battle for a firm policy of opposition to Emu. They include Mr John Redwood, who challenged Mr Major for the Conservative party leadership, and Mr Norman Lamont, who was dismissed by Mr Major from the post of chief finance minister.

But the conclusions of the cabinet paper, which was written by the Treasury, will come as a blow to Mr Michael Howard, the home secretary. He asked for it to be prepared during a cabinet discussion of Emu two weeks ago in the hope that it would further the Eurosceptic case.

Mr Howard argued that the prime minister could make plain to the electorate that sterling would stay out of monetary union for the next five years on the basis that the convergence criteria are not being strictly enforced by EU countries.

Mr Howard and other senior ministers hoped that the paper would provide Mr John Major with the economic underpinnings for such an anti-Emu campaign. By basing their argument on the durability of monetary union, they felt there was a chance it would not be opposed by the pro-European chief finance minister Mr Kenneth Clarke.

However, the paper "blows up Howard's case", said a minister.

It makes clear that no judgment can be made on whether countries are joining the currency on the basis of "fudged" criteria until March or April of 1998 – at least nine months after the last possible date for the general election.

Personal View, Page 18

Degree standards arouse concern

By Nicholas Timmins, Public Policy Editor

Some British universities are trusting more to luck than rigorous procedures in ensuring that degrees which they "franchise" to other countries remain up to standard, the Higher Education Quality Council said yesterday.

Variations in how well quality assurance programmes are implemented are raising suspicions about the quality of British higher education which, if not corrected, could have a serious longer-term effect on earnings, the council warned.

A pilot study of 20 links between 15 British universities and franchisees in Spain, Greece, Singapore, Malaysia and Hong Kong showed that some degree certificates did not make clear that the degree had not been won in the UK.

Some – for example a drama degree awarded by the University of Kent in Spain – do not make clear that the degree is taught and awarded in a language other than English, a failing the council says "might mislead" users of the certificates.

In another case involving the University of Strathclyde in Scotland, papers provided for a non-Greek speaking external examiner were for a time translated by one of the students on the course.

Mr Peter Williams, the council's director of quality, said that the overall results of the audit showed that students outside Britain appeared to be getting a fair deal, and there was a "serious regard for quality and standards".

There remained, however, "little room for complacency" with "a lot of variable practice".

Ministers ease curb on trade with Iraq

By Jimmy Burns in London

For the first time since the Iraqi invasion of Kuwait six years ago, the British government is encouraging UK companies to step up their ties with Baghdad.

The government's Department of Trade and Industry has scrapped a requirement under which a company needed to obtain a special licence to discuss contracts needed by Iraq for "essential civilian supplies and pipeline parts".

The DTI has faced increasing pressure from UK companies who argued that the licensing regime was putting them at a commercial disadvantage to other European companies allowed by their governments to talk more directly with the Iraqis in apparent breach of the spirit of the sanctions regime.

The DTI has now issued businesses with an "open general licence" to negotiate contracts with Iraq under a range of goods approved by the United Nations. Broadly classified as "humanitarian", future contracts could involve water treatment, electrical power plants, the oil industry, medicines and food.

The DTI had to overcome objections from the Foreign Office. Officials there argued against relaxing the restrictions as the UK is a strong public supporter, alongside the US, of continued sanctions against Iraq.

In practice, there is nothing stopping a company from using contacts with the Iraqis to discuss contracts prohibited under the UN sanctions regime, according to UK officials. The UK government has relaxed its own rules following approval this month of the UN's oil-for-food operation.

DTI officials, who have carefully examined a document detailing which goods are acceptable under the plan, believe the possibility exists for some significant contracts interrupted when Iraq invaded Kuwait.

Mr Ron Hollis, a director with the Committee for Middle East Trade, a business lobby group which backs improved trade links with Iraq, said yesterday: "The DTI's move should make it easier for UK companies to get through the red tape."

It emerged yesterday that in anticipation of its move, the DTI this month approved a visit to two Baghdad trade fairs of a delegation of British companies.

The visit, the latest in a series of delegations arranged secretly by non-governmental groups over the last two years, was organised under the auspices of Orient Exhibitions, a UK registered public relations company.

Yesterday the DTI and Orient said they could not disclose the names of the companies as they did not have their permission.

UK NEWS DIGEST

Barings report hits at bank

Mr Eddie George, governor of the Bank of England (the UK central bank), "failed to allay" concerns about the lack of co-operation between different UK and Singapore authorities over the collapse of the Barings merchant bank, the House of Commons Treasury committee said yesterday.

It said in a long-awaited report on the collapse that there were "very evident" difficulties in getting the Bank of England and the Singapore Monetary Authority to share information. The committee said the Bank of England should pay more attention to rumours in financial markets when supervising day to day activity in the UK banking system. The Bank "must pay attention to the realities of commercial activities and market behaviour" if it is to be an effective supervisor.

The Bank of England said last night: "The report identifies some of the dilemmas that face regulators and we welcome it as a constructive contribution to the debate."

The report acknowledges that a "new culture of supervision" has emerged at the Bank in the wake of the debacle – but adds that "we are concerned that the laudable aims which the Bank currently outlines may . . . fall by the wayside". *James Blitz*

■ INSURANCE

Lloyd's market capacity rises

Lloyd's of London insurance syndicates will be able to accept up to £300m ($492m) more in premium income next year than they were allowed to write in 1996, in spite of a slide in rates worldwide. The insurance market's allotted "capacity" next year will be £10.3bn, with corporate investors increasing the proportion they supply to 44 per cent from 30 per cent.

In September Lloyd's completed a plan to reinsure more than £8bn of old losses into a new company called Equitas after the vast majority of its traditional investors, individuals called Names, accepted a compensation offer worth £3.2bn. The number of Names has declined from peak levels of 34,000 in the late 1980s and is to fall further next year to just under 10,000 from 12,800 in 1996. Analysts were concerned that the increase in capacity at a time when insurance rates have been falling might result in some underwriters chasing business at less profitable levels. *Christopher Adams*

■ SPORT FUNDING

National stadium to be in London

The government pledged £200m ($328m) of National Lottery funding to English sport yesterday when it announced that the new national stadium would be sited at Wembley, in north-west London. Some of the money will help finance another big stadium in the northern city of Manchester.

The government-backed Sports Council said £120m would be available towards the estimated £220m cost of converting the existing Wembley Stadium – which has served as the national stadium on a de facto basis for more than 70 years – into a high-tech 80,000-seat venue.

A further £60m would help construct a 60,000 capacity stadium in east Manchester that would host the Commonwealth Games in 2002. Another £20m could be made available for a new swimming and diving complex in the city.

The Sports Council chose Wembley primarily because it would give London a better chance of attracting the world's top sporting events.

Manchester has twice failed with bids to host the Olympics, but plans are already under way for London to bid to host the 2001 World Athletics Championship and the 2006 World Cup. London may also bid for the rights to stage the Olympics in 2008. *Patrick Harverson*

■ CAR SALES

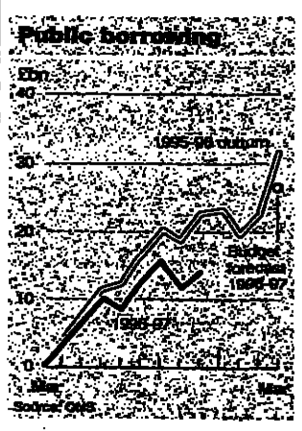
Licence plate change is urged

The UK motor industry is to press for an alternative registration plate system to the current yearly identifier introduced each August. Scrapping the system would also save the industry "hundreds of millions" of pounds a year in unnecessary costs, the Society of Motor Manufacturers and Traders said yesterday as it welcomed a Department of Transport consultation document setting out ways of flattening the annual new car sales "bulge".

The current system was introduced nearly 30 years ago to help smooth the yearly sales pattern which at the time peaked sharply in January. Now August accounts for a quarter of annual sales and July only 2 per cent. The cost to manufacturers, importers and dealers is estimated at more than £200m a year in disrupted cashflow and extra stocking. *John Griffiths*

■ PUBLIC BORROWING

Total on track to meet forecast



Mr Kenneth Clarke, chief finance minister, yesterday appeared on track to meet his Budget forecast for public borrowing this year after healthy tax revenues offset a rise in public spending last month. The government borrowed £2.6bn ($4.32bn) in November to cover the shortfall between its spending and taxes, the Treasury said yesterday. The figure, which was slightly better than the City of London expected, takes total borrowing this year to £13.9bn compared with £22.4bn at the same stage in the last financial year. In last month's Budget Mr Clarke forecast the total public sector borrowing requirement in 1996-97 would be £26.4bn. The figures confirmed that the strong pick-up in economic growth is improving the government's finances as it boosts the flow of taxes paid by companies and consumers. In the year to November, tax receipts were 7.3 per cent higher than at the same stage last year. Corporate tax receipts in particular are running ahead of forecast. *Graham Bowley*

Manpower worries haunt drug companies

Glaxo and SmithKline Beecham may have to look outside the UK for well-trained graduates

The race to discover the wonder drugs of the next millennium has begun. Of course, pharmaceutical scientists do not talk of "wonder drugs". That promises too much, a cure-all, the elusive elixir of life. But the big drug companies are looking to manufacture medicines to tackle cancer, heart disease and little bugs like *enterococcus faecium*, recently found to feed on the antibiotics designed to kill it.

British-based drug companies such as Glaxo Wellcome, SmithKline Beecham and Zeneca are world beaters. Last year, with exports totalling £4.94bn ($8.21bn), they were the UK's second biggest earner behind North Sea oil.

Yet there is a nagging doubt in the minds of some drug company executives that they will not have the manpower – or, more accurately, the brain power – to sustain a competitive challenge.

SmithKline Beecham is already piloting an alternative recruitment process, taking top graduates from universities in mainland Europe.

It is a warning to the British government, and one which leaves university professors with nightmares of an exodus of research funding. As Mr Trevor Jones, former research director of Wellcome, puts it: "The pharmaceutical industry needs the best trained graduates, and if it can't get them in Britain, it will look elsewhere."

The big cause for concern is the supposed declining quality of the UK's science graduates. But Dr Robin Fears, director of science policy at SmithKline Beecham, says: "The brightest graduates are as good as they ever were." With starting salaries of £17,000 ($27,900) – well above the average – the drug companies can still attract the best.

However, Sir Richard Sykes, chief executive of Glaxo Wellcome, told a Confederation of British Industry conference last month that many graduates lacked the experience of "basic analytical tools and instruments required for modern research".

Dr Michael Elves, director of scientific affairs at Glaxo Wellcome, says: "In laboratories, many are, to say the least, ill at ease. We've even had pharmacologists who have never dissected an animal."

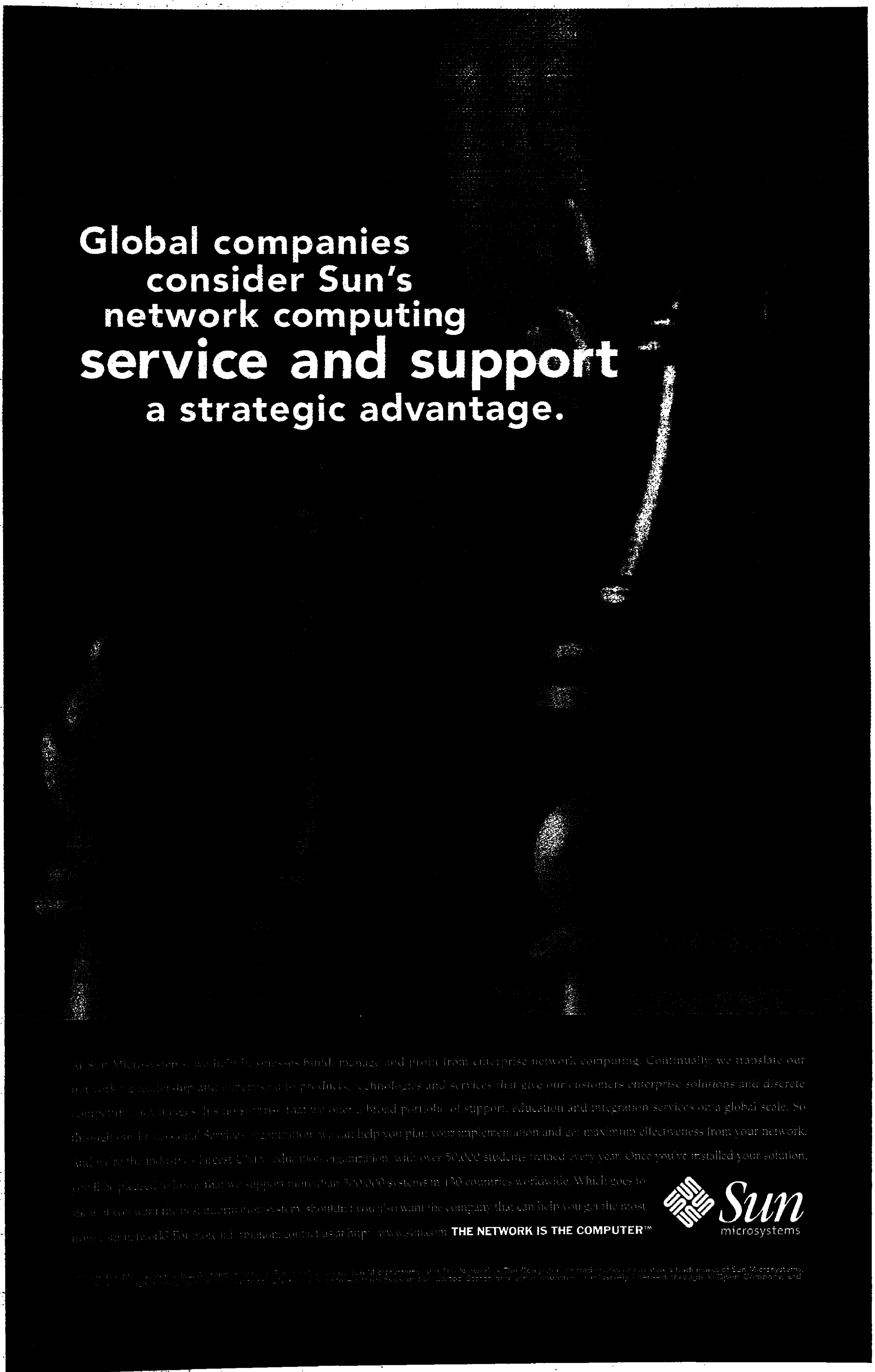
The companies have to spend time and money teaching graduates what they see as basic skills – sometimes for up to a year. Mr Fears claims this is "an unacceptable subsidy to the system".

Glaxo, SmithKline and the others are careful not to accuse the graduates or the universities and instead blame the government for failing to invest in the scientific infrastructure. Capital cuts of £107m in 1995 were only modestly countered by a new £20m science equipment fund this year.

"Most UK graduates are trained on equipment one can also find in the Science Museum," says Dr George Poste, director of research at SmithKline Beecham. Even Britain's top international universities still have laboratories largely built or refurbished in the 1950s and 1960s.

Vice-chancellors estimate that minimum investment of around £474m over the next five years will be needed just to update essential research equipment. The big companies refuse to do what they see as the government's job by investing heavily in university infrastructure.

Simon Targett


Global companies
consider Sun's
network computing
service and support
a strategic advantage.
THE NETWORK IS THE COMPUTER™
Sun
microsystems

Eagle Eye · Louise Kehoe

A tricky decision

There are advances on the horizon that will make a PC bought this Christmas look old hat even faster than usual

Tis the season when friends and colleagues call for "advice" on purchasing a home computer. "How do I know that the PC I buy today won't be out of date in a year's time?" they ask. Or, "Prices seem to be falling. Should I wait for a better deal after Christmas?"

I explain that buying a PC is not like any other electronics purchase. Rapid obsolescence is an inevitable result of the fast pace of advances in computers.

Moreover, the PC that sells for $2,000 (£1,200) today probably will be offered for $1,500 in just a few months time. By then, the $2,000 price tag will be sitting on a faster machine. Prices vary little, it is the performance of PCs that is changing.

The ugly truth is that if you want to keep up with the latest technology, the home PC is now a two-yearly purchase. Once you jump on the technology treadmill, figure on spending $1,000 a year on PC hardware alone.

The "buy now or wait" decision is, however, especially tricky this Christmas. There are several advances on the horizon that will make a PC look old hat even faster than usual.

Early next year, for example, Intel will launch new "MMX" versions of the Pentium microprocessor with enhanced multimedia performance. If you are thinking of upgrading to a higher performance PC, this may be worth waiting for. On the other hand, software that takes advantage of MMX will appear only gradually and Intel plans to offer upgrades later next year.

Also due soon is a new version of Microsoft's Windows that will manage hard disk drive space more efficiently. If you have filled up your hard drive and struggled with the existing Windows 95 data compression system, this is what you need. Microsoft typically offers Windows upgrade packages, but there is no word, to date, on when this will be available.

Looming large is the launch of the Digital Video Disk drive, with huge storage capacity. I suspect, however, that it will be a long time before DVD supplants the CD-Rom drive in the home computer market.

On balance, if you are making your first home PC purchase or are replacing a home PC more than two years old, this is as good a time to buy as any. Otherwise, you may be happier if you wait a few months.

***

Predictions for 1997. Eagle Eye readers came up with some intriguing thoughts about the future of IT. As multimedia PCs are deployed in offices, headphones may become standard attire, Phil Henry suggests. Since I already wear a telephone headset much of the time, this conjures up the image of some sort of combo-headphones with the sound from the PC going in one ear and the phone the other. Is this a new definition of multitasking?

Jeremy Davies expects low-cost service on the Internet will give way to a tiered service, with those who pay extra getting faster and more reliable service. I agree. The technology to set priorities on Internet traffic is close to deployment. I would expect to see several Internet services offering both "economy class" and "business class" travel by the end of next year.

> I would expect to see several Internet service providers offering both 'economy class' and 'business class' travel by the end of next year

Several readers predicted that TV cable Internet services and enhancements to the telephone network would help to alleviate congestion on the Internet. Yet if new applications such as the Internet video telephone technology just launched by Intel and Microsoft take off, demand for bandwidth may continue to outpace infrastructure upgrades.

***

I was delighted to receive several e-mails from readers in India this month, and curious about the preponderance of messages from that part of the world. All became clear when I got an e-mail from the chairman of the Indian Internet service who distributed a copy of the last Eagle Eye column to his customers. It was coincidental, of course, that his message should arrive just as talks got under way in Geneva about protecting copyright on the Internet at a meeting of the World Intellectual Property Organisation.

***

Firewalls are generally deployed to keep the bad guys out, ensuring the security of private computer networks. Yet the same technology can be used to put bad content out of reach of a network's users.

In China, where the government controls all Internet connections, firewalls are being used to build a censorship system. Deborah Triant, president and chief executive of the US arm of Check Point Software Technologies, tells me: "They are building a digital Great Wall of China."

Check Point, an Israeli company which has its second home in Silicon Valley, is more accustomed to being on the side of crimefighters. The use of its technology to enforce censorship raises moral dilemmas, Triant acknowledges.

China is not alone in attempting to block access to undesirable Websites, but the ability of governments to impose censorship is limited in countries with commercial Internet service providers – the digital equivalent of a free press.

It could never happen here, you might think. I am not so sure. Service providers may be coerced into setting up firewall filters if they are held liable for criminal activity on their systems. With the US Supreme Court set to review the issue of pornography on the Internet, will it be long before providers offer smut-free services?

Even if they want to keep out of blocking certain Websites, they may have little choice. The draft international treaty under discussion by the World Intellectual Property Organisation would hold Internet services and telephone companies liable for copyright infringements by their customers.

***

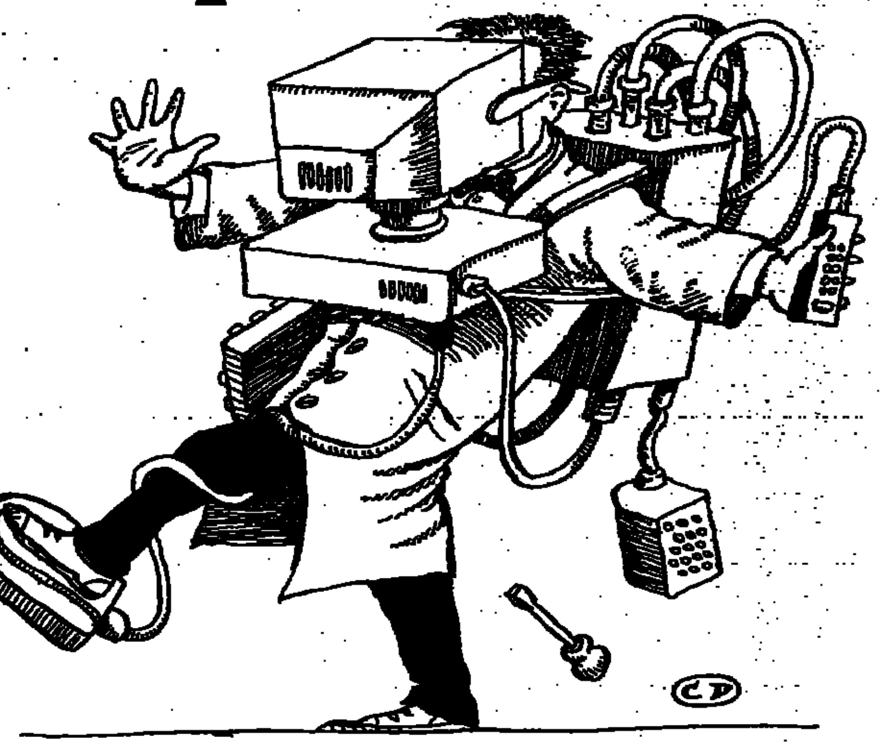
Technologies created for benign purposes can often be turned to ill. A new example: LittleBrother, developed by Kansmen, a California company, that purports to expose "office slackers' inappropriate Internet use" by tracking their Internet activities. It boasts its product "takes the job of monitoring cyberspace away from Big Brother and puts it into the hands of the public". We will see.

Join the Eagle Eye discussion group at www.ft.com *or e-mail Louise Kehoe at* lkehoe@ix.netcom.com

Wearable computers · Victoria Griffith

Prêt à portables

Getting dressed may soon involve donning a computer



Holding a conversation with Thad Starner, pioneer of "wearable" computers, is a bit disconcerting.

The young researcher peers out from a pair of clear plastic laboratory glasses. A black box sits over one eye, giving him the appearance of a digital pirate. The box acts like a miniature computer screen, displaying images and text on the lens.

In one hand he holds a miniature keyboard with nine buttons. By pressing the keys in various combinations, Starner can "type" into the machine. A black shoulder bag contains the rest of the apparatus: some chips, a wireless modem and a 3lb battery to keep the whole thing going.

"I know it looks a little weird, but people get used to it," says Starner, stroking his goatee.

Starner should know. As lead researcher in the Massachusetts Institute of Technology Media Laboratory's project in wearable computers, he has been lugging this contraption around for four years. Now he is convinced that with a few minor design changes, and the commitment of a large manufacturer, wearable computers will be ready for the mass market.

Others are starting to think so as well. The Media Lab has asked for help from designers in New York, Paris and Milan, and is scheduling a fashion show to demonstrate the results next year. Gaultier is toying with the idea of a chip and battery-studded belt. Gucci is trying to come up with a better-looking shoulder bag, and Nike, which helps fund the Media Lab project, is inserting computer capability into its tennis shoes. The ugly black box over the eye will be placed closer to the ear, with mirrors to project images directly on to the glasses' lens.

In much the same way that the Sony Walkman transformed the stereo into a portable entertainment centre a decade ago, miniaturisation is the enabling feature of wearable computer technology.

A wearable can do everything a laptop can: connect to the Internet, and provide word processing, calculation and data storage capability.

Starner is not the only champion of wearables. Carnegie Mellon University and the University of Washington are exploring their use to improve job performance. The Veterans Administration in Washington DC is testing the devices as aids for the disabled. Boeing, the aerospace company, and the UK construction group BICC have equipped mechanics with wearable computers to find out if they can enhance efficiency.

"The computers basically take the place of instruction manuals," says Len Bass, a professor at Carnegie Mellon who is advising Boeing on the project. "These people work in tight spaces. They cannot consult a manual or a desktop whenever they want. But it is hard to keep all the information in their heads. This could be a solution."

While Starner champions wearables for the masses, Bass believes the devices may not be ready for non-industrial applications for some time. All wearables in use today cost thousands, often tens of thousands, of pounds to produce, making them too expensive for most consumers. Yet once the devices are produced in bulk, the cost is expected to plummet. "We are hoping we can have these things made for $1,000 (£610) or less, but that is not yet certain," says Boeing.

> 'When other people are standing around wasting time, I'm working'

A more fundamental question is why people would want to use a wearable computer. "For a boost in efficiency and IQ," says Starner. His life has been transformed: "When other people are standing around wasting time, I'm working," he says. "I read my e-mail when I'm walking to the men's room. All those businessmen can't wait to get into the aeroplane so they can turn on their laptops. Not me. I'm writing my thesis when I'm standing in the line to get my boarding pass."

Starner says his wearable has also helped in his social life. "My friends use me as an information source," he explains. "The other night, we were driving around town at 11pm looking for a place to have dinner. I just call up the information on the Internet and say 'Hey, we can go to the Brew Moon'."

Starner's goals are hardly modest. He says he is out to raise the IQ of the planet. The results of the Boeing and BICC experiments should give some indication of whether a boost in efficiency is possible. Gaining public acceptance for the concept, however, is another matter.

Some people will probably find the idea of no downtime frightening. If work can be done anywhere, people may feel under pressure to work everywhere. Then again, wearable computers may be the next logical step in technological advances that have brought us the cellular telephone and home office.

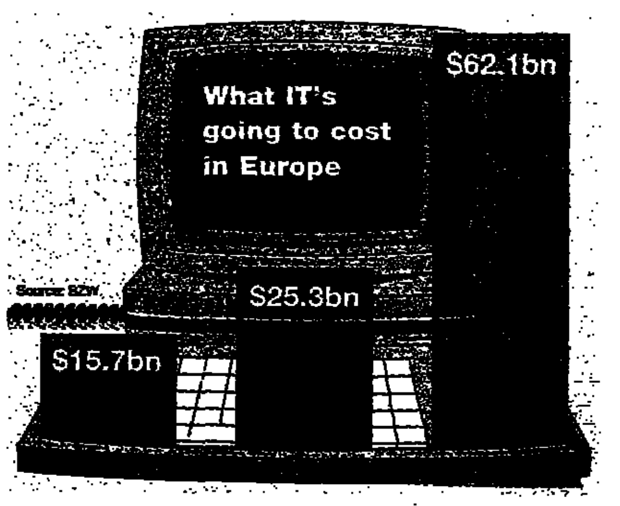
"I think there is still a question whether this will be accepted, but then why not?" says Bass. "If you had told me 20 years ago that people would walk around with stereo headphones on their ears, I'd have said you were crazy. But you see the portable story everywhere. Maybe one day, we'll all be wearing our computers."

FT IT will appear on Tuesday in next week's paper.

Information Technology
● The FT's review of Information Technology appears on the first Wednesday of each month

Making a date with the euro

Software producers will gain most from the date change in 2000 and the advent of the euro, says Nicholas Denton



The costs of adjusting computer systems to cope with the two problems of the millennium date change and European monetary union are at least well researched, if not yet clear. Every research company worth its salt has counted the number of lines of programming code to be changed and ventured its estimates.

For every bank which has to change its accounting systems to cater for deposits in more than one currency, there is a beneficiary among the software companies which are so assiduously raising the alarm among their clients.

A new research paper by BZW, the UK investment bank, has picked some of the winners.

The new millennium problem is the more widely feared – it is the 20th century executive's very own millenarian apocalypse: about 76 per cent of UK IT managers rate the problem as potentially critical or serious.

The challenge is a simple one. Much mainframe computer software was written in the 1960s and 1970s when the new millennium seemed far away and storage space was tight. The date fields – the space in which dates were input – allowed the entry of only the last two digits of the year. Even now in 1996 some cash registers reject credit cards expiring in 00 because the number is interpreted as the year 1900.

Some research companies, such as Gartner Group, have forecast that it will cost $1 to change each line of programming code and up to $600bn (£365.8bn) worldwide in total. BZW's more sanguine estimate is $15.7bn for Europe, of which about half will come from existing budgets, and $52bn worldwide.

But BZW believes banks and other companies will need to make big programming changes to deal with the outgoing national currency and the new euro during the transition period leading up to full monetary union.

The euro will become a powerful currency even in countries outside its ambit, forcing them too to adapt their computer systems.

BZW puts the cost of adjustment at $25.3bn in Europe. Together, the two items represent about eight months of normal IT spending by European companies.

Outside software companies will receive much of this windfall. While about 35 per cent of projects are normally outsourced, BZW says that outside companies are responsible for about 40 per cent of work on the millennium problem and for about 50 per cent of preparation for the advent of the euro.

The investment bank estimates that the two projects will over the next four years add between 5 and 10 percentage points to software companies' 15 per cent sales growth. And software companies, taking advantage of strong demand, are expected to hike fees ahead of their own fast-growing wage costs.

The main winners will be those software companies which have developed special tools to examine and modify the computer systems.

Among them, BZW singles out Cap Gemini SA, part of the computer software and services group. Net sales growth over the five years is expected to be 26 per cent higher and net profits more than double. BZW also recommends Cap Gemini NV, the Dutch arm of the group, Logica of the UK, and the soon to be merged Sligos and Axime. But investors have already missed out on much of the revaluation. Cap Gemini SA's share price has almost doubled since the beginning of the year.

Retailers risk a late opening

Forecasts about the growth of electronic commerce, especially in the US, are proliferating almost as fast as the Internet itself. The latest food for thought comes from AT&T, Andrew Baxter writes.

A study of attitudes among US consumers and executives of companies selling primarily to them provides further evidence of consumers' willingness to embrace the benefits of electronic commerce. Retailers, it seems, need to consider the implications for the bricks-and-mortar decisions they are making today.

According to the study, almost 40 per cent of consumers say they will make more purchases online next year, and 55 per cent will do so within five years. But only 17 per cent of the executives questioned believe that the Internet is a very important vehicle for selling their products today, and only 33 per cent say it will be very important within five years.

More than 12m PC users in the US have already used online services to make a purchase, yet 15 per cent of executives say they are very concerned that "customers are not ready" for the Internet.

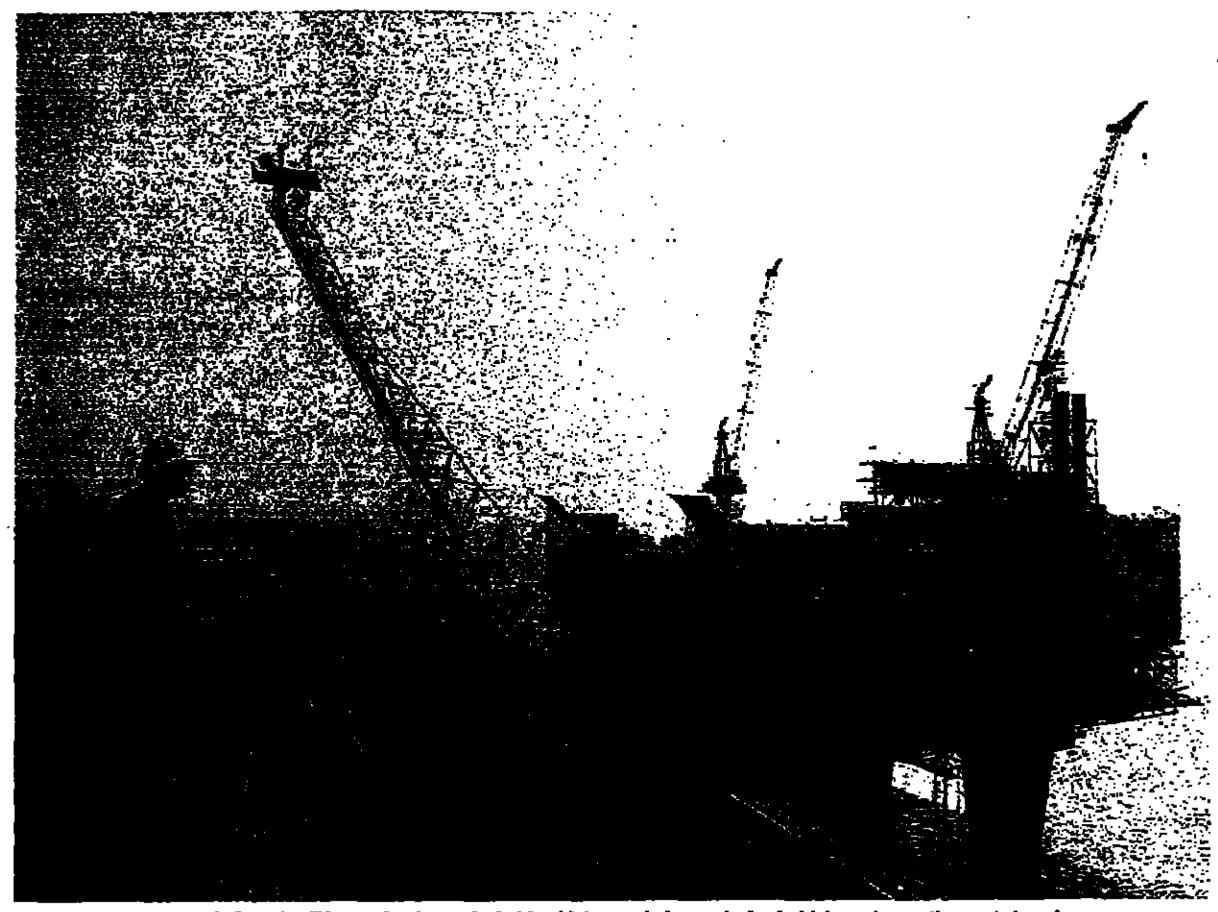
Almost half the executives say their companies do not have a presence on the World Wide Web, and do not expect to have one within five years. Of those companies with Web pages, only 11 per cent report updating them daily.

The survey, *Taking Off: the State of Electronic Commerce in America*, was conducted for AT&T by Odyssey.

Norway

After a difficult start, the new prime minister is drawing up plans for sustaining prosperity when oil revenues start to decline, writes **Hugh Carnegy**

Constructing the Norwegian house



Oil platform in the North Sea: the "Norwegian house" of old, which stands in need of refurbishment over the next decade *Tony Andrews*

When Mrs Gro Harlem Brundtland stepped down as Norway's prime minister in late October after dominating the country's political scene for more than a decade, transfer of power to her successor, Mr Thorbjörn Jagland, was carefully planned to be smooth and uneventful, causing no waves of controversy to upset the ruling Labour party.

But within weeks, Mr Jagland was plunged into stormy waters as a row exploded over allegations of improper share dealings by the star appointment to his new cabinet, Mr Terje Röd-Larsen.

This week has brought another blow with a second minister, Ms Grete Faremo, stepping down from the oil and energy brief because of alleged abuse of power by the national intelligence service during her previous job as justice minister

Mr Röd-Larsen, who won international acclaim for his peace mediation efforts between Israel and the Palestinians, was brought home from the Gaza Strip by Mr Jagland amid great fanfare to be planning minister.

Leaving his role as special UN envoy in the Middle East, he was to play a key role in building "the Norwegian house" for the next century when the country will face a decline of the North Sea oil riches that in recent years have made it one of Europe's most prosperous nations.

Barely a month after the formation of the new government, Mr Röd-Larsen had been turned from hero to villain and was forced to resign as allegations of wrongdoing – which he strenuously denied – piled up against him concerning a lucrative share option deal he was involved in a decade ago.

Mr Jagland, far from enjoying a honeymoon, instead endured an embarrassing scandal that shook his minority administration almost before its members had sat at their desks.

The prime minister quickly appointed a replacement planning minister, Mr Bendik Rugaas, the former head of the national library. Now he will be hoping that he can at last get on with moulding the government in his own image after the pre-eminence of Mrs Brundtland.

Mr Jagland, 47, was the uncontested successor to Mrs Brundtland when she decided to retire. A career party man, he had been chairman of the Labour party for 4 years, since Mrs Brundtland gave up the formal party leadership to concentrate on the prime ministry. She stepped down a year in advance of the next general election to give Mr Jagland and the party plenty of time to prepare without her.

Although he has a reputation for being to the left of the pragmatic, centrist Mrs Brundtland, Mr Jagland has promised to stick to the cautious fiscal policy espoused by her government.

Mr Jagland has the great advantage of taking over as the economy, which is set to grow by more than 5 per cent this year, is enjoying a powerful, oil-boosted upswing which has driven down total unemployment to just over 5 per cent of the workforce, its lowest point since 1988. The chief worry of Mr Jens Stoltenberg, the new finance minister, is that the economy is in danger of overheating.

As the end of the century approaches, Norway is cashing in as never before on its petroleum riches. Pumping more than 3m barrels per day – three times the level a decade ago – the country has become the world's biggest exporter after Saudi Arabia. Combined with high world oil prices, the impact on the state treasury has been impressive: net cash flow this year will top NKr70bn and is forecast to rise above NKr77bn next year.

The result is the government has eliminated its debts and is now running a big budget surplus. Norway, were it a member of the European Union, would qualify for European monetary union with room to spare. This year, the government will pour NKr46bn into its Petroleum Fund, to be invested abroad to convert today's surplus oil wealth into financial assets for use in the future. By the end of the year 2000, there should be NKr270bn in the fund – equivalent to more than 20 per cent of today's gross domestic product.

Norway is vulnerable to any downturn in oil prices. There is also a contrary danger that the strength of the oil sector will drive up the value of the krone, overheat the domestic economy and erode the fragile competitiveness of the non-oil sector. The government says it is well aware of these risks and is determined not to be caught out.

Externally, the outlook for Mr Jagland is less comfortable, but hardly alarming. Norway has had to adjust to life on the fringes since the decision in a referendum two years ago to stay out of the EU – a decision Mr Jagland, like Mrs Brundtland, had fought to avoid.

But fears expressed by the pro-EU camp of Norway being left isolated have not to date been realised. Indeed, Norway has been allowed to become a de facto member of the EU's Schengen agreement on open borders to help it preserve its open border regime with neighbouring Finland and Sweden, which joined the EU when the Norwegians voted to stay out.

Norway has most of the economic and trade advantages of EU membership through the European Economic Area accord. It is, of course, excluded from decision-making bodies, a fact that EU supporters in Norway still believe will work to Oslo's long-term disadvantage. But the government works hard at making sure its voice is heard.

"I have never really met a closed door when trying to discuss issues with colleagues in the EU. I just have to travel a lot," says Mr Björn Tore Godal, the foreign minister.

Another advantage has accrued to Oslo through the re-emergence of Nato as the central security organisation in Europe. Norway is a founder member of Nato. It feared that security and defence policy would shift to the EU in the post-Cold War era, but is relieved that this has not occurred. "Nato is where it happens," says Mr Godal, with evident satisfaction.

Mr Jagland's chief concern is to use Norway's current wealth to prepare for a more uncertain future – hence his project to build *Det Norske Hus*. Early in the new century, oil revenues are forecast to start to decline sharply, while the ageing population will equally sharply increase the state's pension commitments. There is a real question mark over whether the non-oil economy will then be able to support Norway's generous welfare system – to which the Labour party is deeply committed.

The prime minister has built his government – notwithstanding the fall of Mr Röd-Larsen - with this in mind. The intention is to draw up long-term plans for "the Norwegian house" and to work hard to communicate the necessity of the task to a public inclined to oil-induced complacency. His appointment as justice minister of Ms Anne Holt, a well-known author of gritty detective novels featuring a lesbian Oslo police investigator, was one example of Mr Jagland's effort to make government and politics more accessible to a cynical electorate.

Det Norske Hus is to be founded on four pillars: a robust, private-sector onshore economy; an efficient welfare system; investment in culture, science and education; and Norway's external relations.

"It is an overall strategy for the development of Norway's welfare society," says Mr Stoltenberg. But there is a clear signal from Labour that this can only be built on a thriving private sector onshore. "We need a strong competitive private sector because we have to be prepared for a time when oil production will decline," says the finance minister.

This strategy will form the core of Labour's campaign for the general election next September. Aside from the "feel good" factor emanating from the economy, which is expected to continue healthy growth next year, Mr Jagland starts that campaign with a further big advantage in the form of the fragmentation of the opposition parties.

So divided are the Conservative and Centre parties, which traditionally form the core partnership of any non-Labour coalition, that Mr Jagland appears to have every prospect of sailing through the gap to election victory. In which case, he will have a further four years to put his vision of *Det Norske Hus* into practice.

■ **Politics**

Labour wins from feud

The largest party holds the rest at bay in the land of coalitions, reports **Hugh Carnegy**

With less than a year to go until the next general election, Norway's two main opposition parties are at daggers drawn. The chief beneficiary looks set to be Mr Thorbjörn Jagland, the new prime minister, and his ruling Labour party.

The Centre party and the Conservative party are former partners in centre-right government coalitions: a new alternative government to Labour – the country's single biggest party – looks out of the question unless they can co-operate.

But the two have been bitter enemies since a deep split over European policy caused the collapse of the last non-Labour coalition in 1990. The Conservatives strongly backed Norway's bid to join the European Union while the Centre party, which is rooted in the farming community, led the successful campaign to reject membership in a referendum in November 1994.

The expectation was that, after the referendum, which effectively removed the EU question from the political agenda for some time to come, the two groups would move closer once more. But under Mrs Anne Enger Lahnstein, its popular leader, the Centre party has staked out a policy position often to the left of Labour which has instead reinforced the differences with the Conservatives.

"It is a problem. So long as the Centre Party attacks Labour from the left, it will be extremely difficult to

Continued on Page II

Government Petroleum Fund: by Hugh Carnegy

Planning for a rainy day

The scale of the surpluses raises severe problems over where to invest them

It is the kind of problem most finance ministers and central bankers only get to dream about. What to do with billions of dollars left over when all government spending is taken care of?

Yet that is exactly what Norway has to deal with because of the huge flow of funds from its North Sea oil and gas production. The answer Oslo has come up with is called the Petroleum Fund.

The Petroleum Fund operates along very simple lines. All state income from oil and gas is channelled into the fund. The government uses the fund to finance the gap between state spending and other, conventional state revenues. Whatever is left over is used for investment for the future benefit of the nation.

After the system was set up in 1990, when Norway was in recession, there was, initially, no surplus in the Petroleum Fund because of the size of the budget deficit at the time. But since 1995, the underlying state finances have swung closer to balance and this, combined with strong oil prices, has produced a hefty surplus piling up in the Petroleum Fund.

The surplus has posed the question of how Norway can best make use of its oil and gas riches. Both public and private sector economists tend to describe the Petroleum Fund as a book-keeping operation – but one with a very important principle: to ensure the money is not wasted on inefficient spending which could ultimately distort and weaken the economy.

"Spending too much of our oil wealth now would result in real exchange rate appreciation and it would cause a building-down of our non-oil tradeable economy to levels which would not sustain us when the oil revenues decline," says Mr Martin Skancke, deputy director general at the finance ministry. "We regard the Petroleum Fund as a mechanism to transform the oil wealth into financial assets for the future."

"The challenge is to use the fund to transfer wealth from one generation to another – and to make this transparent," says Mr Jarle Bergo, deputy governor of the Bank of Norway. "It's a way to embarrass the politicians into showing how they are spending the money."

The first critical question to decide is at what level to pitch the underlying budget deficit. The non-oil budget deficit for next year has been set at NKr22bn, or 2 per cent of gross domestic product. Opposition parties have argued for increased spending, but the government insists there is no room for a looser fiscal stance without the risk of overheating the economy.

Meanwhile, the government has eliminated any debt overhang from the past. The result is that in 1997, the net surplus added to the Petroleum Fund will be NKr55.4bn – on top of NKr46bn this year and NKr2bn in 1995. By the year 2000, the government now anticipates the fund will reach NKr270bn, including accumulated dividends.

The second big question, then, is where to invest the money.

Pumping any of it back into Norway – or Norwegian assets – has been ruled out. Funding infrastructural development over and above what is already being spent within the conventional budget would risk the distorting effects on the economy the government is determined to avoid. So, too, would subsidising "national champion" industries.

The fund will therefore be used to invest in foreign assets. The Bank of Norway has been put in charge of the operation.

The bank has looked around the world for examples to follow in planning an investment strategy – but has not found too much to help it.

In Europe, there is no parallel with Norway's scale of net assets. The examples of similarly surplus-rich nations are to be found among the Gulf Arab states or in the Far East where Norwegian officials say a culture of secrecy has meant not much information has been forthcoming.

The initial guidelines from the finance ministry dictate that, in the first instance, the Fund's funds should be invested in low-risk instruments – mainly government bonds, weighted towards the currencies in which Norway has its biggest import demands. That means the D-Mark, the Swedish krona, sterling, the US dollar and the yen will figure prominently.

But the fund is growing so rapidly that it will shortly want to move into higher risk securities as well – chiefly equities. Although the government is clearly nervous of this, Mr Bergo suggests a move beyond bonds is on the agenda.

"Historically, the inclusion of equities makes it possible to get higher yields – and combined with fixed-rate instruments you can still have stability. In fact, certain combinations of bonds and equities might actually reduce volatility," Mr Bergo says.

Investing in equities raises issues other than just the question of risk. The fund is so large that investing in equities could lead to it taking on a significant ownership position in individual companies that the Bank of Norway would be reluctant to shoulder.

Mr Bergo says this could be avoided, however, by buying "synthetic" equity instruments which were based on equity prices, but not actually direct investments in any particular company.

Whatever the instruments, the intention is that the fund should provide a way of ensuring Norway's oil wealth is stretched well beyond the years in which the black stuff is actually being lifted from under the sea. With, like other European countries, a big state pension bill looming early in the next century, it should prove a valuable cushion for the future which other countries can only envy.

Government net lending (NKrbn)

	1995	1996	1997
Fiscal budget surplus	[illegible]	[illegible]	[illegible]
+ Surplus in Government Petroleum Fund	2.0	45.8	57.4
+ Surplus in other central government accounts*	[illegible]	[illegible]	[illegible]
+ Differences between central government accounts and national accounts	11.8	13.0	0.2
[illegible]	[illegible]	[illegible]	[illegible]
= Central government net lending	28.9	64.5	72.0
[illegible]	[illegible]	[illegible]	[illegible]
= General government net lending	30.8	63.8	68.7
[illegible]	[illegible]	[illegible]	[illegible]

* [illegible]
Source: Ministry of Finance

Labour wins from feud

Continued from Page I

form a united front against the government," says Mr Jan Petersen, the Conservative leader. He says it is already clear there will be no rapprochement with Centre before the election next September.

The likeliest scenario for the election now is that the main battle will be for second place between the Conservatives and Centre.

At the last election, in 1993, the Centre party rode a wave of anti-EU feeling to vault over the Conservatives as the second largest party, taking 32 of the 165 seats. The Conservatives, who took less than 20 per cent of the vote, slipped to 28 seats.

Labour increased its strength by four seats to 67 – well short of a majority, but the fragmentation of the opposition allowed it to continue in power.

Adding to the problems facing the Conservatives and Centre is a recent wave of popularity for the Progress party under is telegenic leader, Mr Carl Hagen. With a sharp anti-immigrant tone, it has been attracting voters disaffected by Labour's grip on power. But its policies have made it a taboo partner for any potential alternative coalition government.

Mrs Lahnstein, who is sharply critical of neo-liberal, free market economic policies, is unabashed in her refusal to seek a reconciliation with the Conservatives. Instead, she is courting the Christian Democrats and the tiny Liberal party in the hope of forming a potential alternative minority government that could take over from Labour. "We have minority governments in Norway. The question is whether we have a small minority government or a big minority government," she says. "We can't accept that it is a question of a Labour or a Conservative-led group. We have to give the electorate an alternative to both left and right."

The only real winner from the opposition splits will be Labour. With the EU issue defused as Centre's most popular election attraction, it has slipped in the polls and seems set to lose seats next year. But the Conservatives, undermined by support growing for the Progress party, is struggling to climb over the 20 per cent barrier again.

Labour, meanwhile, has been made to look less comfortable as a result of the decision by energy and oil minister, Ms Grete Faremo, to step down, following the earlier resignation by planning minister Mr Terje Rød Larsen. Nevertheless, few in Norway will be betting against Mr Jagland forming the next government afterthe general election.

Thorbjörn Jagland: prime minister Brundtland's uncontested successor Popperfoto/Reuter

PROFILE

Growing in the shadow

Future growth in demand lies in the arrival of digital television transmission

Sweden's Ericsson and Nokia of Finland are the Nordic telecoms giants – but Bergen-based Nera is one of several telecoms equipment manufacturers in the region, fast developing significant world markets of their own in the shadow of the big two.

Like Ericsson and Nokia, Nera's strength is in mobile telecommunications. But it has developed two key product niches which cater to special demands: one is microwave transmission equipment for both fixed and mobile telecoms networks; and the second is satellite telephones – the phones that have allowed news correspondents to file reports from even the remotest spot in Africa.

The company was spun off from ABB, the Swiss-Swedish engineering group, in January last year in a public offering. It quickly became the largest technology stock on the Oslo bourse and a listing on Nasdaq, the New York over-the-counter market, followed in June. This year, Nera shares have climbed 35 per cent, trading at the time of writing around NKr260, giving the company a market capitalisation of NKr5.4bn.

Sales growth has been a good deal less eye-catching this year than the share-price rise. After turnover of NKr2.4bn in 1995, sales were up just 5 per cent in the first nine months over the same period a year ago at NKr1.8bn. Profits before tax in the first three quarters were down 7 per cent at NKr90.8m.

But Mr Asbjörn Birkelund, chief executive, says the relatively slow progress this year was due to heavy research and development spending and internal restructuring. He points to an increase in operating margins, before research and development costs, to 14.8 per cent in the first three quarters from 13.7 per cent a year ago as evidence of the true promise of Nera. "Overall we expect to grow faster than the market average of 10 to 15 per cent sales growth," he says.

Nera's biggest operations are in microwave transmission systems. These systems are used in both fixed and mobile networks to provide a wireless link, particularly in areas of difficult or remote geography. Sales in the first nine months grew 26 per cent to NKr741m. New orders were up 50 per cent. A boost has come through deregulation of telecom networks which has expanded the customer base by the entry of new operators – and increased demand for microwave systems which can be more quickly and more cheaply installed than cable or fibre networks.

Although microwave links do not have the vast capacity of fibre-optic links, Nera is spending heavily to develop higher capacity transmission by its systems. Increasingly fibre and microwaves can be integrated in the same networks, Mr Birkeland says. He sees demand growth in the arrival of digital television transmission and the possibility of using microwave links to connect end-users to broadband, multi-media networks.

Nera's other main business is for satellite phones. A leading worldwide producer, Nera was drawn into the business through its longstanding position as a supplier of communications links to the shipping industry. Marine communications are still an important sector to Nera – but today the media, mining companies, police and military and even the banking industry are growing users of satellite phones. Unlike conventional cellular mobile phones, which rely on local radio links to work, a satellite phone can be hooked up in any open space where it can lock on to a satellite signal. The reach of satellite phones is almost limitless.

Until recently, the bulk and weight of the phones was a big hindrance. But Nera's latest model, with its satellite dish built into the lid of the carrying case, weighs just 2.4kg, compared with 6kg for the smallest model three years ago. Nera predicts the weight will be down to 400gms by 2002. To date the performance of the satellite phone division has been patchy.

Hugh Carnegy

Fishing: by Hugh Carnegy

Second to oil, but still a vital industry

Fish processing and a better relationship with the EU are keys to the future

There is no country in Europe to which the fishing industry is more important than it is to Norway.

Since the rise of the North Sea oil industry, fishing has slipped in its economic significance to the nation. Fish and fish products account for 8 per cent of exports, compared with almost 50 per cent accounted for by oil and gas. Metals and machinery exports are each now worth more than fish exports.

But the fishing industry remains both a vital part of the economy and an integral part of Norway's political and social culture. Although only 11th in the world, Norway, with 2.5m tonnes a year, is the biggest catcher of fish in Europe.

Two years ago, the perceived threat to Oslo's control of the country's fishing grounds was a critical factor in the vote to reject membership of the European Union. In the future, when oil and gas reserves start to run out, fishing should once again assume its traditional position as a vital – and sustainable – natural resource.

The political significance of the fishing industry has much to do with its historical role as the chief source of income and livelihood for far-flung coastal communities, to which many Norwegians still have close generational ties.

Today, although the numbers of fishermen have declined from 40,000 in the 1970s to less than 24,000, fishing is still a core source of employment in the north and an important element in sustaining population levels in the remote Arctic and sub-Arctic regions.

The industry is swelled by more than 12,000 employed in fish processing and approaching 5,000 now working in fish farming. The Norwegian Fishermen's Association estimates that 15 per cent of all paid employment in the north of Norway is directly connected to the industry.

But the fish sector faces a number of difficult political and commercial challenges if it is to secure a path of rising output. Most fundamental of all is the issue of fish stocks. Like other fishing grounds around the world, the once plentiful stocks of fish in Norwegian waters have in recent decades come under threat, chiefly from overfishing. In the 1980s, Norway's total catch slumped from some 3m tonnes a year to less than 1.6m tonnes in 1990.

Since then, there has been a recovery. In the Barents Sea area, where Norway and Russia control the main fishing areas, cod stocks have been replenished to a substantial degree since they collapsed in the 1980s. Next year, the joint Norwegian-Russian quota for the Barents fisheries has been increased to 850,000 tonnes of cod from 700,000 tonnes this year. In 1989, it was 160,000 tonnes, all of which was fished by mid-April.

Mr Karl Eirik Schjött-Pedersen, the newly-appointed fisheries minister, puts the recovery down to the efforts made jointly with the Russians to curb overfishing and allow cod stocks to recover. "We are facing a much better resource situation in the Barents Sea because of a policy of responsible management," he says. "We have taken the principle of sustainable use of resources and put it into practice. We say – never again, April 1989."

The outlook is not so good further south in the North Sea, however, where Norway is involved in an uneasy relationship with the EU over fishing practices. "We are somewhat afraid that our friends in the EU don't give enough weight to the principle of sustainable development," says Mr Schjött-Pedersen.

Norway argues that demersal species – mainly cod and haddock – are being overfished because quotas are too high and because EU regulations allow fishermen to catch and discard many fish of species over their quota limits which are netted while fishing for species not yet fished up to quota levels. Oslo also says EU quotas for herring and mackerel in the North Sea are too high. What it wants to see are lower quotas and other measures such as a halt to fishing in sensitive areas and refined nets to ensure breeding stocks are rebuilt.

Norway has also found itself in conflict with the EU over its highly-developed fish-farming industry, which has grown to become an important part of the nation's fish sector. Last year, farmed fish – mainly salmon and trout – accounted for NKr7bn in value, out of the total catch of almost NKr15bn.

But the EU, prompted by fish-farmers in Scotland and Ireland, is investigating charges that Norway is guilty of subsidising its industry against EU rules and of dumping salmon on European markets at below production price. The European Commission is expected to impose a minimum import price as a counter-measure.

Norway is the biggest European producer, expected to farm almost 300,000 tonnes of salmon this year, compared with 80,000 tonnes in Scotland. But Mr Schjött-Pedersen argues that Norway has simply become more efficient than other producers, by cutting disease and increasing productivity.

Nevertheless, Oslo has imposed restrictions on feed levels and cage capacity to curb output in a bid to assuage EU suspicions. As a non-EU member, Norway is clearly vulnerable to actions against it by Brussels. In the long-term, it will have to smooth relations if the increasingly important fish-farming sector is to enjoy stable growth.

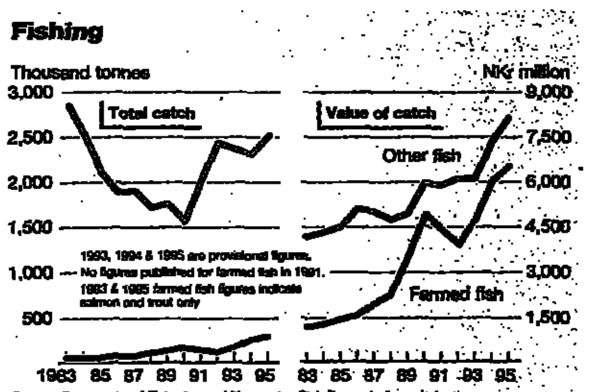
No less important to the future of the Norwegian fishing industry as a whole is the health of the processing industry.

Norway has tended to ship mainly unprocessed, or minimally processed fish, leaving most of the added-value processing to food manufacturers in countries like Denmark. For example, only NKr1.1bn of the NKr7bn in farmed fish exported last year was processed as smoked salmon or other value-added products.

Unlike the fishermen, the processers were mostly anxious to join the EU in order to secure full access to EU markets and increase their opportunities to expand. They already struggle with the geography of the country which works against an efficient concentration of processing plants.

Despite the anti-EU vote, however, the industry has seen a trend of rising investment in recent years and some consolidation which should enhance efficiency. That is badly needed if Norway is to gain maximum value from its fishing industry.

Fishing



Source: Directorate of Fisheries and Norwegian Fish Farmer's Association

هكذا من الأصل

■ **Oil:** by Robert Corzine

New exploration in foreign waters

Liberalisation could increase competition and sweep aside the stable market

The internationalisation of the Norwegian oil industry was much in evidence in the past year, with both Statoil, the state-owned energy company, and Saga, Norway's largest independent explorer, making foreign corporate acquisitions.

Although the exploration potential of Norway is far from exhausted, the two acquisitions mark a turning-point in the development of the Norwegian industry. They confirm that Norwegian oil companies believe they must expand to new areas in order to remain competitive. And they suggest that further acquisitions, particularly by Statoil, can be expected.

Statoil started the trend by intervening successfully in the hostile bid for Aran Energy, a small Irish explorer, by Arco of the US. Aran's interests in the new exploration areas west of the Shetland Islands in the UK and off the west coast of Ireland were the main attractions, according to Statoil executives. Mr Harald Norvik, Statoil's president, said the acquisition was "an absolutely perfect training ground" for the company.

It was big enough to be demanding, and, at the same time, small enough to be absorbed into the Statoil group without straining management resources.

Saga followed up in December with a successful $1.23bn bid for Santa Fe, the North Sea exploration and production company owned by the Kuwait Petroleum Corporation. Again, the logic behind the acquisition was similar to that put forward by Statoil. Santa Fe's exploration acreage in the frontier areas of the Atlantic margin was a big attraction, as was the company's share in producing fields close to Saga's existing assets in the Norwegian sector of the North Sea.

The international expansion of Norwegian companies, however, does not herald a fall off in domestic production. Norway's original, "economically producible" reserves have been estimated by the government at 23.7bn barrels, including natural gas condensate, a naturally occurring gasoline. Of that figure about 8.5bn barrels was produced between 1971 and 1975, according to the Ministry of Industry and Energy.

Recent estimates suggest that Norwegian oil production in 1996 will be around 3.14bn barrels a day, an increase of 370,000 b/d above 1995. Wood Mackenzie, the Edinburgh-based oil industry consultants, believe Norway will see another surge in output in 1997, when it expects to see production rise by around six per cent.

A recent forecast from the International Energy Agency, which monitors world oil markets on behalf of the western industrialised countries, predicted that Norwegian oil production will continue to grow until the end of the decade, with peak output of 3.71m b/d likely to be reached in 2000.

The IEA forecast, however, does not take into account almost a dozen offshore prospects which have already been named. Nor does it include 75 other, unnamed prospects in exploration blocks in current producing areas. Some of these are expected to be brought into production using existing infrastructure on fields which are declining. In addition, the North Sea oil industry has exhibited an ability in recent years to bring smaller satellite fields into production in ever shorter timeframes. The IEA study concludes that such developments could add another 100,000b/d-200,000 b/d to its forecast output by 2000.

But it also notes that smaller-than-expected increases are also possible due to more rapid declines in big, mature fields such as Statfjord, the North Sea's largest, Gullfaks, Ekofisk and Oseberg. It also notes that Norway could run into greater problems in expanding its gas sales into continental Europe.

This year the giant Troll gas field, western Europe's largest, was commissioned. It forms the centrepiece of Norway's gas marketing plans. The uncertainty alluded to by the IEA is mainly centred on the impact of possible gas market liberalisation in the European Union. At present, most EU states have monopoly, national gas companies, which have negotiated large, long-term contracts with leading gas exporters such as Norway, Russia and Algeria.

But the stable market conditions that have characterised the sector for the past 20 years could be swept away by increasing competition brought about by liberalisation. Russia, Norway's main competitor, has ambitious plans to expand aggressively in Europe, with the attraction of cheaper gas being one of its competitive advantages. Although its main onshore fields are in remote areas, Russia's large reserve base makes the marginal cost of increasing gas exports very low. Norway, on the other hand, would have to invest in more costly offshore developments if a full-scale price war erupted in Europe.

Norway did receive some good news on the gas front earlier this year when the UK government signalled that it was ready to re-open the question of what to do with the Frigg gas pipeline that connects Norwegian gas fields with the UK. Norway has seen its share of the UK gas market dwindle from more than a quarter in the mid 1980s to an insignificant three per cent or so currently. This is due to UK government efforts to encourage domestic production and its failure to respond to Oslo's calls for the renegotiation of the treaty which limits Norwegian sales to gas from the Frigg field.

But the UK government believes that its recent de facto ban on new Norwegian imports clashes with its goal of liberalisation. It has indicated to North Sea producers that over the medium term Norwegian gas exports are likely to resume, although the exact timing is still uncertain.

Petroleum sector

	1994	1995	1996*	1997*	1997 Oil price sensitivity
Assumptions:					
Crude oil price, NKr per barrel	[illegible]	108	134	125	10
Production, mill. Sm³ o.e.	180	193	222	236	
Crude oil	153	165	185	194	
Natural gas	27	28	36	41	
NKrbn					
Export value**	108.5	115.4	161.3	164.3	12.0
Accrued taxes and royalties***	28.4	29.3	41.2	37.9	5.6
Paid taxes and royalties****	[illegible]	27.8	38.4	42.6	8.0
Net cash flow*****	25.6	38.5	71.2	77.6	7.9

*Estimates

**Crude oil, natural gas and pipeline transport

***Sum of accrued taxes, royalties, area fees and CO_2 excise tax

****Sum of paid taxes and royalties incl. CO_2 excise tax dividends from Statoil and net payments from direct central government participation in petroleum activities

Sources: Statistics Norway, Ministry of Industry, Energy and Finance

PROFILE **Statoil**

Harald Norvik: relationship with the state has 'matured' Statoil

An awkward position

Expansion abroad poses problems of structure and interests

Statoil, Norway's state oil and gas company, is at an awkward stage of development. Created less than 25 years ago to ensure that Norway's oil boom produced industrial as well as financial benefits, it has often borne the brunt of jibes and downright derision from some of the world's older, more established oil majors.

Oslo's policy – now ended – of giving Statoil a stake in all the country's oil and gas fields has propelled it to its current status as one of the world's biggest petroleum exporters, with net profits in 1995 of NKr5.3bn.

Critics contend that it has simply not had time to build the technical and management skills needed *for such a large operation*, and especially one with international ambitions. Although most of its activities will remain focused on the Norwegian continental shelf for some years to come, Statoil wants to carve out a long-term role as a leading international energy company with interests in a number of areas.

The company currently ranks as one of the world's largest traders of crude oil and refined products. Its long-term goal is to diversify its production base beyond Norway to the point where a third of its output will be from international sources within 10 years.

Statoil now sees itself as a Scandinavian utility, *trading and providing* energy in a number of forms, including electricity. "Statoil has to define the Nordic energy market as ours," says Mr Harald Norvik, Statoil's chief executive.

Some have questioned whether Statoil's nationalised status gives it an advantage over other energy groups. Mr Norvik contends that its national ownership does not shield it from the competitive pressures faced by publicly-quoted oil majors. "The only market where we don't compete is in the equity market," he notes.

At present, Mr Norvik sees no reason to "recommend a change of ownership" for Statoil. He says the relationship between the company and the state has "matured," in recent years.

He also believes the extreme nationalism which characterised earlier debate about the company's future has receded. "There is no longer an ideological or old-fashioned political debate about Statoil."

But although Mr Norvik believes that "from a business point of view there is no need to change," he can see circumstances when it may be useful to alter the company's status. If Statoil's international expansion required a large infusion of new capital, then the government has said: "You are free to raise the issue of how you should raise that capital."

Even if politics do not affect the day-to-day running of Statoil, government policies could have an impact on how the company expands, particularly in the developing world. Last year, for example, many Norwegians expressed concern about Statoil's operations in Nigeria in the aftermath of the execution of minority rights campaigner Ken Saro-Wiwa and nine of his followers.

Mr Norvik believes *Statoil should not be a* vehicle to promote Oslo's foreign policy, but adds: "It would not be wise to be in too many politically difficult places."

Robert Corzine

■ **Economy:** by Hugh Carnegy

Outlook is the envy of others

To prevent overheating, structural problems have to be faced

When Mr Jens Stoltenberg, Norway's newly-appointed finance minister, presented his revised 1997 budget last month the outlook he described for the economy was about as good as any European country could wish for.

Thanks to the bounty of North Sea oil that the nation has enjoyed since the 1970s, growth in gross domestic product, after topping 5 per cent this year, is set next year to remain a healthy 3.1 per cent, according to finance ministry projections. Employment will continue to expand, pushing total unemployment down below the level of 5.3 per cent it fell to in November.

Inflation is likely to rise from 1.25 per cent this year to 2.5 per cent in 1997 – but mainly due to one-off factors, leaving underlying inflation around 2 per cent.

The state's finances are blooming. The government has been a net lender since 1994; the current account surplus is forecast to rise from Nkr78bn this year to NKr82bn next year – more than 8 per cent of GDP.

The budget will be in surplus to the tune of almost NKr46bn and the surplus will rise above NKr54bn in 1997 – all to be invested abroad in the Petroleum Fund set up to store up wealth for the future.

Yet Mr Stoltenberg, moved to the finance ministry from the energy department in October by Mr Thorbjörn Jagland, the new prime minister, was far from triumphant as he revealed these figures.

"The warning lamps are on," he declared. His chief worry was that the economy is in danger of overheating – threatening an inflationary surge and an eventual slump such as hit the economy after similar upturns in the mid-1970s and 1980s.

Soaring new car sales – the main symptom of fast-rising private consumption – strong wage increases and *shortages of labour in some* areas of the economy were among the worrying signs Mr Stoltenberg cited. "It went wrong in 1976, it went wrong in 1986. It must not go wrong in 1996," he said.

The preventive medicine administered by the Labour government is to continue a tough fiscal stance taken over the past two years – despite a clamour from opposition parties to, in effect, use the oil riches to fund more spending or cuts in the tax regime.

In his revised budget, Mr Stoltenberg conceded some NKr2bn in extra spending, mainly on the public health sector, over the original 1997 *proposals – but balanced this* by slicing NKr2.5bn off expenditure in other areas and adding NKr1bn in additional taxes to restrict public consumption. He and Mr Jagland are also looking to the trade unions – which are closely linked to the ruling *Labour party – to curb a* trend which saw wages rise by 4 per cent this year.

Adding to Mr Stoltenberg's difficulties has been a trend of upward pressure on the krone. The government wants to resist this to avoid hitting the competitiveness of Norwegian industry. The Bank of Norway cut interest rates last month in a bid to hold down the currency – but lower interest rates in turn could fuel more activity in the domestic economy.

Many European finance ministers would love to have such a problems to grapple with. But even oil-rich Norway does have structural economic challenges beyond the short-term need to prevent the economy from overheating.

The first stems from the very size of Norway's oil *dependence. The chief rea*son why the state's coffers are so replete at present is the strength of the oil price which swelled the state's net cash flow from oil to NKr71bn this year. Were oil prices to fall, the effects would be swift and damaging. *That is one of the rea*sons why the government has been so determined to salt away as much oil revenue as possible now in the Petroleum Fund to create a buffer against the day when the income falls.

The Petroleum Fund is also a tool designed to help Norway cope with what will be its greatest of all structural challenges – when North Sea revenues start to decline because reserves begin to run out.

That is now expected to start happening in the first decade of the new century. What makes the prospect all the more daunting is the fact, that at the same time, the ageing profile of the population will cause a steep rise in the state's pension liabilities. A ministry of finance projection shows the gap between net oil cash *flow and pension commit*ments rising to some 4 per cent of GDP by the year 2010.

Income from the Petroleum Fund should help to fill this gap. But the non-oil, or onshore economy will also have to shoulder the burden in a way it does not have to today. The question is whether structural reforms are needed to strengthen the onshore economy.

A striking feature of the Norwegian economy is the large size of the public sector – in common with other Scandinavian countries. It is close to Sweden in having 30 per cent of its employed workforce in the public sector – compared with a west European average of less than 20 per cent. Of the 100,000 jobs created since 1990, 80,000 have come in the public sector. Meanwhile, the numbers employed in industry are below the average – 15 per cent of those employed against almost 20 per cent in western Europe as a whole.

The Labour government has made building up the private sector one of the pillars of "the Norwegian house" Mr Jagland has set out to build for the new century. "One reason for that project is that we know we need a strong, competitive private sector – because we have to be prepared for a time when oil production will decrease," said Mr Stoltenberg. A key strategy to ensure that has been to hold down public spending growth below the level of growth in GDP. The government boasts that this has helped produce a 50 per cent rise in the volume of manufacturing output since 1989.

Budget and Government Petroleum Fund (NKrbn)

	1995	1996	1997
Total revenues	[illegible]	402.2	429.0
Revenues excl. petroleum activities	322.2	341.8	360.0
Taxes and excises mainland Norway*	[illegible]	287.4	320.5
Other revenues	58.4	54.4	39.6
Revenues from petroleum activities**	[illegible]	60.4	69.0
Total expenditure	368.3	356.4	374.6
Expenditure excl. petroleum activities	[illegible]	367.3	382.2
Purchase of goods and services	86.8	89.6	90.1
Transfers	[illegible]	277.7	292.1
Expenditure on petroleum activities***	11.7	-10.9	-8.6
Surplus before transfer to the Government Petroleum Fund	[illegible]	[illegible]	[illegible]
– Revenues from petroleum activities	38.5	71.2	77.6
= Non-oil budget surplus	[illegible]	-25.5	-22.2
+ Transfer from the Government Petroleum Fund	[illegible]	25.5	22.2
= Fiscal budget surplus	[illegible]	0	0
+ Net transfer to the Government Petroleum Fund	2.0	45.7	55.4
+ Dividend on the Government Petroleum Fund	[illegible]	0.1	2.8
= Total surplus fiscal budget and Government Petroleum Fund	4.1	45.8	58.2

*Technical changes related to the Tax Equalisation Fund which increased tax revenues and transfer from the Budget by 12.5NKrbn NOK in 1997

**Including allowances for depreciation of assets and estimated cost of capital in Central Government's Direct financial interest in the petroleum sector

***Expenditures are net of operating profit in the State's Direct Financial interest in the petroleum sector

Source: Ministry of Finance

PROFILE Personal Independent Vehicle Company (Pivco)

No need for oil here

It is small and for short journeys, and faces considerable competition

Norway's prosperity owes a big debt to the internal combustion engine, as the world's ever-growing fleet of cars fuels demand for petrol from the country's North Sea oil reserves. But a company based in the outskirts of Oslo is working hard to perfect a vehicle that uses no petrol at all.

Pivco's CityBee is an electrically-powered two-seater car that *aims to* claim a niche in the global car market for short-range urban driving.

There is no tradition of car making in Norway. But the CityBee has already made its mark in the highly competitive race to produce effective electric vehicles that can offer a clean car of the future.

In 1995, the CityBee was voted the Scandinavian Electric Car of the Year in a rally of 28 prototypes from producers that included motor industry giants such as Toyota, Ford and Renault.

This year, the Bay Area Rapid Transit (Bart) subway railway system in San Francisco bought 40 CityBees in a pioneering contract to offer Bart users cheap, clean road links from subway stations to their offices. The Norwegian Post Office is testing CityBees with a view to using them routinely for urban delivery services.

The CityBee: a purpose-built electric car for urban driving, aimed at the global market

Pivco decided earlier this year that it was ready to move to commercial production of the CityBee. It is working with the British specialist car company Lotus to finalise all the road-going features of the vehicle and plans have been laid for production lines in Norway and California with the capacity to make more than 10,000 CityBees a year.

The CityBee was first conceived after the 1973 oil shock by Mr Lars Ringdal, a Norwegian businessman who has since died, but whose family *still controls* 40 per cent of Pivco.

The idea to produce an electric car independent of oil was not original. But Pivco, incorporated in 1991, differs from other companies working to develop electrically-powered vehicles. It has not concentrated on the technology of batteries and electrical motors, which it buys in from outside. Its emphasis has been on developing the concept of what the electrical car should be.

"Almost all cars today can be converted to electrical power, but it is very expensive and not efficient," says Mr Rolf Gulbrandsen, Pivco's chief executive. "What we have focused on is the concept – and the design of the car. Our goal is that *the car should be sold at a* price that is just as cheap as a regular car, with very low running costs."

The CityBee is not meant to be an all-purpose car, capable of carrying five people and their luggage for long distances. It is very small, only 2.8m long and 1.5m wide, *and is intended* to be used for short journeys within cities – for personal transport or delivery work.

Mr Gulbrandsen says the "driving force" behind the CityBee concept is the pollution caused by normal cars. He argues that most petrol-driven cars are huge energy wasters. He points out that 70 per cent of all cars in western Europe are used in urban areas, averaging just 40km a day at an average speed of 25km per hour and carrying less *than two people per journey.*

The CityBee may only have a range of 110km between battery recharges and a top speed of 90km per hour. But this falls well within the profile of most urban driving. Battery recharging costs about NKr5 – much less than the cost of petrol to drive a normal car 110km – and the car is emission-free.

Pivco has laid heavy stress on the design of the vehicle as well. It uses an aluminium "space frame" on to which a one-piece thermoplastic body is fitted. The result, the company claims, is a car that meets the most rigorous safety standards for small cars – but can be almost completely recycled. At the same time, the number of parts used to build a CityBee is 500, compared with around 5,000 in a regular small car.

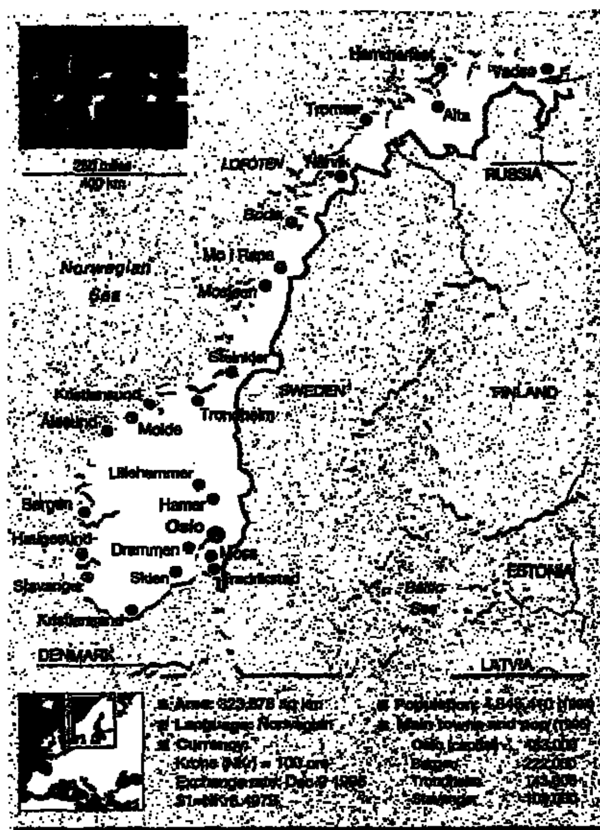
The CityBee is up against *formidable competition.* General Motors of the US, the world's biggest car maker, has introduced its EV1 two-seater electric car this year. Toyota has built a 4-wheel drive electric car; and Honda a minivan. Mercedes intends to produce an electric version of its "Smart" car it is developing *with Swatch, the Swiss* watch maker.

But Mr Gulbrandsen is undeterred. "At a show in Japan in October there were 34 electric cars on display. But most were copies of all-purpose cars," he says. "We intend to be different."

Pivco has enjoyed financial backing from some Norwegian industrial companies, including Statoil, the big oil group, and Olso Energy, the city utility, as well as some institutional investors. It has to date invested NKr100m in developing the *CityBee. As it moves to start* large-scale production, the real test of whether the vehicle can find a place in the car market is about to begin.

Mr Gulbrandsen says that when commercial sales begin, Pivco may seek industrial partners to help it with marketing and distribution. But he doubts he will seek out a *traditional car maker for* help. They, after all, are the competition.

Hugh Carnegy



Economic summary

	1996(e)	1997(f)
Total GDP, nominal ($ bn)	151	161
Real GDP growth (annual % change)	4.8	3.3
GDP per head ($)	34,482	36,479
Inflation (annual % change in CPI)	1.2	2.4
Average hourly earnings (annual % change)	4.0	4.8
Manufacturing production (annual % change)	2.5	3.3
Unemployment rate (%)	4.4	4.8
Government bond yield (%)	6.9	7.1
General govt budget balance (% of GDP)	5.0	4.5
Gross public debt (% of GDP)	47.1	44.3
Current account balance ($bn)	9.1	10.5
Merchandise exports ($bn)	47.1	51.9
Merchandise imports ($bn)	-34.8	-38.1
Trade balance ($bn)	12.3	13.8

Main trading partners (Share of total trade to world, 1995)

(e) estimate (f) forecast

Government and constitution

Head of state
King Harald V acceded in 1991

Head of government
Prime minister Thorbjørn Jagland

Form of state
Constitutional monarchy

Legal system
Based on the constitution of 1814

National legislature
Storting (parliament) of 165 members directly elected by proportional representation for a four-year term. The Storting divides into an upper house (Lagting) and a lower house (Odelsting) by internal election, although it sits as a single body except when discussing new legislation. There is no right of dissolution between elections.

National government
Council of State (Statsrad) headed by prime minister, responsible to the Storting.

Electoral system
Universal direct suffrage over age 18

National elections
Last election: September 1993
Next election due September 1997

Main political parties
Labour Party (67 seats)
Centre Party (32 seats)
Conservative Party (28 seats)
Socialist Left Party (13 seats)
Christian Democrats (13 seats)
Progress Party (10 seats)
Liberal party (1 seat)

Sources: EIU, Datastream

Key economic projections

Change from previous year (%)	1995 NKrbn (1993 prices)	1996*	1997*
[illegible]			
Public consumption	181.2	2.2	0.9
[illegible]			
of which: petroleum activities	46.0	2.2	3.4
[illegible]			
Exports	354.7	7.5	6.3
[illegible]			
traditional goods	132.4	8.8	5.2
[illegible]			
of which: traditional goods	202.1	6.1	6.2
GDP	[illegible]	[illegible]	[illegible]
of which: mainland Norway	745.1	3.8	2.5
[illegible]			
Memorandum items			
[illegible]			
Wage growth		4	3.5
[illegible]			
Household savings, % of net disposable income		6	5
[illegible]			
as percentage of GDP		7.6	7.7

Sources: Statistics Norway and Ministry of Finance *Estimates

هكذا من الأصل

ARTS

Television/Christopher Dunkley

Violence put in perspective

Treating television as the main cause of violence around us might begin to make sense once we have persuaded the British government to renounce violence as its chosen means of getting its way in international conflicts. (Saddam's people being bolshie in the Gulf? Send a gunboat! Blast 'em to kingdom come!) Blaming television may seem a reasonable idea on the day that Britons relinquish their belief that teachers should be allowed to hit children with sticks as a means of coercion. (No discipline in schools? Give 'em the cane!) It may be sensible to take television to task for causing violence on the day that British mothers cease to believe that the best treatment for a crying child in a supermarket is a smack.

As a state, as a society, and as individuals we – well, an awful lot of us – have a deep and abiding belief in the rightness and efficacy of violence as a means of attaining our ends. We have legalised, codified and admired violence for millennia, whereas television has been with us just 45 years. It is hypocritical nonsense to blame television for teaching impressionable teenagers that violence is good, violence is effective, violence pays, when that has been the message passed down from generation to generation since time immemorial. What were the crusades? Goodwill missions by genial PR men?

Television shows us the endlessly violent instincts and/or methods of the people who inspire, make and watch the programmes.

The revived attack on television violence by Virginia Bottomley and the Daily Mail is a classic example of displacement activity. Under strain, and baffled about what to do? Rock backwards and forwards, scratch your head – or attack television. Any changes imposed on television as a way of trying to reduce real violence in society will be cosmetic. You could sterilise the whole of television tomorrow, remove every violent incident down to the last slapped wrist, and it would make not a jot of difference to man's timeless inhumanity to man.

To conclude that television causes teenage hooliganism – or middle-aged mayhem – you have to ignore history. The town/gown fighting in Oxford which led to the deaths of students and temporary closure of the university in 1355 was not prompted by television: it happened in 1354. The most vivid depiction of London muggings have come not from television but from Dickens and Defoe. The notion that "TV sells soap so it must sell violence" (trotted out yet again on this week's *Heart Of The Matter* with the usual knowing smile from the trottee) springs from contorted thinking. Does the trottee really believe that those lager ads sell beer to teetotallers? Or New Zealand lamb to vegetarians? Commercials work when they are pushing at an open door. You can be fairly confident that anyone who goes out and behaves as a homicidal maniac after watching television was a homicidal maniac when he switched on. No matter how much violence Mary Whitehouse watches, she is not going to commit copycat murders.

So does television have no influence whatsoever? Plenty, of course, as a part and parcel of all the elements acting within society, but it is only a machine. It is no more capable of "causing" violent instincts in the brain of *homo sapiens* than romantic novels are capable of "causing" love. What it can and does do is increase the speed at which information circulates, and the rate at which ideas and attitudes are conveyed between people. It can also mislead viewers about the degree of danger involved in walking down the street after dark or letting the children play on the common, and can give rise to fear which is disproportionate to the actual risks of daily life.

What, then, should be done? Cosmetics are not necessarily a bad thing, and a little collection of cosmetic gestures might be better than no gesture at all. The most important point, surely, is that the viewer should be given every opportunity to know beforehand what is coming up on screen, and be helped as much as possible to control what children are able to see. To that end parents should be able to buy sets containing the famous "V-chip" which can screen out unwanted programmes. But it would be wrong for the government to force all manufacturers to fit V-chips to all new sets. More than 60 per cent of households in the UK contain no children and it makes no more sense for Nanny Bottomley to force V-chips on them than it does to force all childless homes to pay for "childproof" caps on aspirin bottles – as occurs at present.

More controversially and more expensively, it must be time for broadcasters to admit that since they cannot act *in loco parentis* to the nation, cannot be responsible for our morals or our bedtimes, and have no means of knowing what children are watching in their bedrooms, they will in future categorise every programme and return responsibility for viewing to the viewers. In the past it has been argued that any sort of certificate system similar to the cinema's would be far too long-winded, time consuming and expensive for television.

But why should producers not categorise their own programmes, preferably not using the modern film system since that still seems to baffle so many people, but returning to the old U, A and X symbols meaning universal, parental guidance, and adults only. These ratings could be attached to all billings in programme magazines and newspapers and, if it was thought necessary, even carried as a small logo in the corner of the screen. Regular topical strands such as news programmes could be permanently X-rated so that British television news could abandon its present self-imposed censorship and show the British public what is seen these days by viewers in Europe, North America and so on. You could even have U-rated news for the timid.

To avoid producers cheating and marking all their programmes "U" in the hope of bigger audiences, there would have to be post-hoc reviews to ensure accuracy, and a penalty system under which cheats would lose the right to categorise their own programmes and hand over to a department head or even, if really necessary, an outside body. As ever, Whitehouse types will no doubt complain that X-ratings will serve as a beacon to the "wrong" sort of viewer, but that merely proves that their real concern is to impose their tastes on others, rather than protect their own sensibilities. Clearly these certificates would have no enforceable authority, but viewers would become responsible for the content of their own viewing and their children's, and violence would be seen only by those who knowingly sought it out.

Then perhaps we could all talk about something else.

Alastair Muir

Liz May Brice, centre, as Beauty in Laurence Boswell's beguiling production set in 18th century France

Musicals/Antony Thorncroft

Innocence and angst

Vivian Ellis, the doyen of British music theatre, famous for chirpy numbers like "Spread a little happiness" and "This is my lucky day", died earlier this year, aged 91. Days before his death he had completed some new songs for *Listen to the Wind, a jeu d'esprit* he had originally created in 1954 as a children's Christmas treat. There is something warmly festive about leaving the King's Head Theatre (where the show runs until January 19) humming the last song of a nonagenarian.

Listen to the Wind is a delight, at least for lovers of innocence. It is a pastiche, set in a cosy Victorian world (in itself the epitome of the Christmas dream) seen through the equally rosy eyes of the mid-1950s, before sex reared its suggestive head. Here we have nice children – and rarely have stage children seemed so sympathetic – carried off on dream adventures with pirates and potions, mermaids and lost jewels. There is also a wonderful pantomime villain, with all the lip curling venom of a pussycat. It is as warming and comforting as a cup of cocoa.

And to make it totally escapist there are Vivian Ellis's songs, dozens of them, as predictable as dawn, as tinkly as sleigh bells, as old-fashioned as Christmas itself. The new songs, especially "I used to rock", performed with arch aplomb by Paula Wilcox, are among the strongest. Ellis obviously clung to the idea, which lasted for a few months in 1958, that with a little sprightliness, pop could tame this new rock music nonsense.

Listen to the Wind would shock the streetwise but has immense warmth. As the children, Vicky Taylor in particular was quite charming, and Ben McCosker and Olivia Hallinan are equally committed. The rest of the cast, under Dan Crawford's generously free and easy direction, just about resist sending it all up. In the past *Listen to the Wind* was famous, if at all, for launching Maggie Smith, as the West Wind. It now lives again as the perfect Christmas outing for genteel children and their parents.

★

Contemporary Christmas, in all its post-modern alienation, is briefly evoked in *Marry Me a Little*, a cocktail of Stephen Sondheim songs, which has just opened at The Bridewell, London EC4. A Woman (Rebecca Front) hangs up her stocking in her lonely Manhattan apartment, expecting nothing.

Marry Me a Little is basically a concert pretending to be a show. In 1980 Sondheim was persuaded to allow out-cuts, songs that he had written for other productions but which were never used, to be blended into a short, sad tale of two New Yorkers (Clive Carter plays The Man) spending a solitary Saturday night. The conceit is that they while away the hours alone on the same set.

It is a mournful piece, and some of the songs – in particular "Pour le sport" – hardly fit into the self-pitying *angst* of the situation. But it is a wonderful opportunity for Sondheim fans to mop up crumbs from the Master's pianostool and the title number is so obviously a classic that it is not surprising that it was subsequently re-incorporated into *Company*, the show it had been so strangely axed from. "There won't be trumpets" and "Your eyes are blue" also deserve saving. This short, 70-minute diversion will not change the world but is a very acceptable extra stocking-filler.

Theatre/Sarah Hemming

Bewitched by Beauty

The Young Vic is rapidly becoming the place to be at Christmas. After its wildly-inventive *Grimm Tales* and *Jungle Book*, it has now turned its attention to *Beauty and the Beast*. This year, Tim Supple has handed over the reins to Laurence Boswell as director but he, too, drives a coach and horses through the usual clichés of the Christmas show. His *Beauty and the Beast* is a bewitching piece of theatre that brings out all the mysterious attraction of the old fairy tale.

In Boswell's adaptation, the tale is set in 18th-century France. At the outset, Beauty and her family live in prosperity and security in a fine house in Paris. But when her *merchant* father's business begins to crumble, the family moves downmarket and the story begins. Beauty's father stumbles across the Beast's palace after losing his way on a snowy ride home. The Beast holds him hostage and will only release him after he promises to send one of his daughters in his place. So Beauty finds herself in his strange palace and *en route* to releasing the Beast from the spell that has imprisoned him.

It is a canny adaptation that allows adults in the audience to muse on the curious sub-text of the story: the Beast's palace could just be the world of dreams where sub-conscious desires take on strange shapes; Beauty's adventure could be the passage from adolescence to adulthood, as she ricochets back and forth between the familiarity of her family home and the exotic otherness of the Beast's palace. But all this is there for the taking, suggested rather than made explicit. For children, this is just a fascinating tale, beautifully told and appealing to their own experience of sibling rivalry and powerful day-dreams.

It is robust, physical and highly-inventive and exploits the theatre-in-the-round stage wonderfully well. Anthony MacIlwaine's design is simple: just bare boards on stage and four immensely-high sets of doors at the end of the exit ramps that can suddenly *be flung open to great effect*. Boswell uses the power of sudden darkness and changes of light superbly, plunging his audience *into the world of the play*. And the whole production is underpinned by Mick Sands' excellent music based on 18th-century French courtly music, folk songs and ballads played on traditional instruments.

The Beast is represented at first only by a booming voice and a comically automated little clockwork manservant (cleverly played by Gary Sefton). But as his release approaches, he makes an appearance: a sorrowful creature weighed down by a huge head of leaves and thorns. Beauty is beautifully played by Liz May Brice as a composed, resilient young girl, whose capacity for love is never in question.

The whole production has a beguiling, other-worldly feel to it and is packed with memorable images.

Young Vic, London SE1 to February 1 (0171-928-6363)

Recital

Diva to thrill to

This is still a golden eagle among voices. Let it fly and it soars aloft, the most glorious and powerful creature on the wing, but these days bringing it under its handler's control is increasingly starting to sound a problem.

Galina Gorchakova has been busy in London over the past few weeks. There was the revival of *Tosca* at Covent Garden, which received mixed reviews, and a starring spot in the televised gala, when she sang "Pace, pace" from Verdi's *La forza del destino*. Her operatic duties despatched, she stayed on a for a couple more nights to give a solo recital at the Wigmore Hall on Monday – all Russian songs, accompanied by her regular partner, the formidable Larissa Gergieva.

It started uneasily. Most singers like to come out and clear the *air (and their throats)* with a bracing song that will also have the benefit of blowing away any nerves. Gorchakova began with Glazunov's delectable "The Nereid", aqueous arpeggios in the piano washing over a vocal line of hushed poise. The singing was luminous, delicate in tone, touchingly withdrawn, but often under the note – a problem that refused to go away.

Keeping this great soaring voice under restraint is no easy task, but Gorchakova wants to be taken seriously as a recitalist and chooses songs that are real salon pieces, not pseudo-operatic arias. There was enough to enjoy among a whole array of songs little known in the west, such as her quiet radiance in Cui's "The statue at Tsarskoye Selo" and the *sense of dark yearning lurking in* the shadows of Rubinstein's "Night": even when she deadens the sound on purpose, as in Tchaikovsky's "Not a word, my friend", the voice cannot help being filled with emotion.

So it seems unappreciative to sit through all these inward songs just waiting for the voice to let fly, but that is the temptation. In fact, on the evidence of this recital, there are two voices: a middle which has to be manipulated carefully to stop it wandering off the note and a top which always does what she knows it will do, namely blaze away thrillingly and set every pulse in the hall racing (quiet top notes do not seem to be an option).

A couple of operatic encores should have sealed her success, but did just the opposite. Catalani's "Ebben, ne andrò lontana" from *La Wally* went firmly enough, but "Vissi d'arte" from *Tosca*, which should be in her voice when she has just been singing it on stage, was a trial as she struggled this way and that to stay in tune.

Gorchakova has *one of the* world's great soprano voices in her keep. I can think of no other singer one is willing so hard to get it right.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Berliner Barock-Orchester: with conductor Konrad Latte, soprano Gwendolyn Bradley and organist Wolfgang Wedel perform works by Pachelbel, Corelli, J.S. Bach and Handel; 8pm; Dec 20

EXHIBITION
Das Bauhaus-Archiv, Museum für Gestaltung Tel: 49-30-25400278
● Otto Bartning und die Bauhochschule Weimar 1926-1930: exhibition devoted to the Bauhochschule Weimar, the *Weimar "successor" of the* Bauhaus when this teaching institution for the arts moved to Dessau. The Bauhochschule was led by architect Otto Bartning. Other teachers included Ernst Neufert, Erich Dieckmann, Otto Lindig, Wilhelm Wagenfeld, Ewald Dülberg, Hedwig Heckemann and Cornelius van Eesteren; to Feb 23

OPERA
Staatsoper Unter den Linden
Tel: 49-30-20354438
● Hänsel und Gretel: by Humperdinck. Conducted by Fabio Luisi, performed by the Staatsoper Unter den Linden. Soloists include Nold, Bönig, Bornemann, Nossek, Eisenfeld, Zettisch and Menzel; 7pm; Dec 19

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum Tel: 44-1223-332900
● The Golden Century: Dutch Master Drawings from the Fitzwilliam Museum, Cambridge: this exhibition shows landscapes, seascapes, animal and flower drawings, figure drawings and drawings with religious themes by 17th-century Dutch artists, including Rembrandt, Cuyp, van Huysum, Goltzius, Bloemaert, Saftleven and the van de Veldes. *All works are selected from the* collection of the Fitzwilliam Museum; to Dec 22

■ CHICAGO

EXHIBITION
Museum of Contemporary Art Tel: 1-312-280-2660
● Art in Chicago, 1945-1995: exhibition presenting an historical survey of the art made in Chicago in the years 1945-1995. The exhibition features about 150 works by 135 artists in all media and includes a supplementary exhibition of documentary and archival information on the time arts, such as film, video, performance, audio works, and computer-assisted arts; to Mar 16

OPERA
Civic Opera House & Civic Theatre Tel: 1-312-332-2244
● Die Zauberflöte: by Mozart. Conducted by Marek Janowski, performed by the Lyric Opera of Chicago. Soloists include Frank *Lopardo*, Elizabeth Norberg-Schulz, Yelda Kodalli and Olaf Bär; 7.30pm; Dec 19, 21

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● London Symphony Orchestra: with conductor Rafael Frühbeck de Burgos and pianist Horacio Gutierrez perform works by *Rossini*, Prokofiev and Stravinsky; 7.30pm; Dec 19
Wigmore Hall Tel: 44-171-9352141
● *Guildhall String Ensemble*: with conductor and violinist Robert Salter perform works by Corelli, Biber, J.S. Bach, Telemann and Haydn; 7.30pm; Dec 19

EXHIBITION
Mayor Gallery Tel: 44-171-7343558
● Faces and Places: Dada and Surrealist Portraits and Landscapes: exhibition celebrating the centenary of the birth of Tristan Tzara, *the founder* of the Dada movement, and of André Breton, the founder of Surrealism. The exhibition features works by many of the most significant artists of the two movements, together with some of the lesser known names. Artists represented include André Breton, Giorgio de Chirico, Salvador Dali, Max Ernst, René Magritte, Man Ray, André Masson, Pablo Picasso, Kurt Schwitters, and others; to Dec 20

■ LOS ANGELES

CONCERT
Dorothy Chandler Pavillion Tel: 1-213-972-8001
● Los Angeles Philharmonic: with conductor/pianist Jeffrey Kahane perform works by Prokofiev, Mozart and Tchaikovsky; 8pm; Dec 19, 20 (1.30pm), 21

EXHIBITION
UCLA at the Armand Hammer Museum of Art and Cultural Center Tel: 1-310-4437020
● Visionary States: Surrealist Prints from the Gilbert Kaplan Collection: exhibition featuring about 120 prints from the collection of New York publisher Gilbert Kaplan. Inspired by MoMA's prophetic René Magritte show of 1965-66 and intrigued by the dreamlike elements of surrealist imagery, Kaplan began collecting surrealist art in the late 60s and has continued to collect for over 30 years now. Among the 23 artists included in the exhibition are Victor Brauner, Giorgio de Chirico, Salvador Dali, Paul Delvaux, *Marchel* Duchamp, Max Ernst, René Magritte, André Masson, Joan Miró, Man Ray, Yves Tanguy and Dorothea Tanning; to Jan 5

■ MIAMI

EXHIBITION
Center for the Fine Arts Tel: 1-305-375-3000
● Continuity and Contradiction. A New Look at the Permanent Collection: over 50 paintings, drawings, prints, sculpture, photographs, video and mixed media installations are on loan from the Museum of Contemporary Art, San Diego. The works by such artists as Donald Judd, Sol Le Witt, Roy Lichtenstein and Kiki Smith range from 1960 to 1990; from Dec 19 to Feb 23

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● *New York Philharmonic*: with conductor Leonard Slatkin and narrator Christopher Plummer perform works by Dukas, Barber and Walton; 8pm; Dec 19, 20, 21

EXHIBITION
Museum of the City of New York Tel: 1-212-534-1672
● Drawing the Future: Design Drawings from the 1939 New York World's Fair: focusing on the art of the futuristic drawings that provided the vision for the 1939 New York World's Fair, this exhibition presents about 40 original architectural renderings *and illustrations* from the museum's collection of nearly 400 drawings prepared for the 1939 World's Fair; to Jan 5
The Pierpont Morgan Library Tel: 1-212-685-0008
● A Christmas Carol: Charles Dickens's manuscript of "A Christmas Carol" is on view in this holiday exhibition; to Jan 5

■ PARIS

DANCE
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Gitano: a choreography by Antonio Canales to music by Jiménez, performed by the Ballet Flamenco Antonio Canales; 8.30pm; Dec 20, 21, 22
Théâtre National de l'Opéra – Opéra Garnier Tel: 33-1 42 66 50 22
● Ballet de l'Opéra National de Paris: perform George *Balanchine's Apollon*, Agon, Capriccio and Violin Concerto to music by Stravinsky; 7.30pm; Dec 19

■ TURIN

OPERA
Teatro Regio Tel: 39-11-88151
● Le Convenienze ed Inconvenienze Teatrali: by Donizetti. Conducted by Fabrizio Maria Carminati, performed by the Orchestra e Coro del Teatro Regio. Soloists include Luciana Serra, Carlos Chausson and José Fardilha; 8.30pm; Dec 19

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands.
Tel: 31 20 664 6441. E-mail: artbase@pi.net

WORLD SERVICE
BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

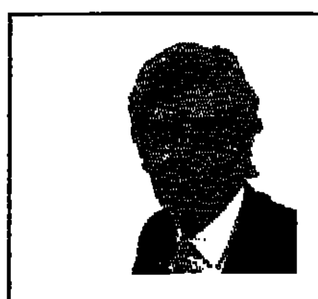
17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



Edward Mortimer

Open invitation

The EU and Nato should do more to bring Russia and other new democracies into the western community

"Our goal is to welcome the new member(s) by the time of Nato's 50th anniversary in 1999." Nato foreign ministers declared at their meeting in Brussels last week.

The brackets round the "s" are unduly coy. Although Poland, the historic battleground between Germany and Russia, is the only likely new member of strategic importance, it is no secret that the Czech Republic and Hungary will also be on the list when Nato's political leaders unveil it at a summit in Madrid next July.

The only candidates which are still in doubt are Slovenia and Romania. Otherwise, the list for the "class of 99" is closed. William Perry, US defence secretary, broke the bad news to the Baltic states in September, telling them they were "not yet ready for Nato". Bulgaria must languish until there is another round of enlargement – as must Slovakia, the rest of the Balkans, Ukraine, and Russia.

The arguments against this approach are recalled in a recent report* by two security think-tanks, one Anglo-American, the other European. It annoys the Russians, divides the new democracies and encourages countries without external threat to devote meagre resources to defence rather than to cushioning the painful transition from socialism to market economics.

The authors argue that the EU, rather than Nato, should take the lead in bringing the new democracies into the western community. Nato is telling the EU to do this for the Baltic states, they point out, so why not for the central Europeans as well? What central Europe needs is the psychological reassurance and investor confidence that comes from full integration in western society, which the EU, rather than Nato, can offer.

Those points are valid, but it is too late to reopen the argument. The Russians have been told too often that Nato enlargement is neither directed against them nor subject to their consent. To retreat from it now would involve a damaging loss of Nato credibility.

As for the EU, its enlargement, however desirable, is too slow to be used as a quick fix. EU membership involves painful adjustment of laws and economic practices in the candidate countries. Even more difficult, it requires the alteration of deeply ingrained procedures on matters such as the Common Agricultural Policy, with the mollification of powerful vested interests.

Despite their overlapping membership, however, Nato and the EU have not talked directly to each other until the last few weeks. It is only now that the agenda of building a new European order to replace that of the cold war is getting the co-ordinated strategic attention it should have had since 1990.

Two contributions to this effort come from distinguished researchers at the London School of Economics. The first is Professor William Wallace (now a Liberal Democrat peer), who argues persuasively that an enlarged EU "must do less, so as to do it better"**. The Union should leave details of social, environmental and agricultural legislation to member states, he says, and concentrate on strengthening its capacity to conduct foreign policy, fight cross-border crime and manage the pressures of migrants and refugees.

The second is Michael Emerson, a former EU ambassador in Moscow, who looks at how the map of Europe has changed since the Roman Empire and how it is likely to look in 2050***.

Mr Emerson presents charts to show the main international organisations relevant to Europe – and which of these Russia, the US and the EU belong to. It is, he remarks, "an incoherent mess for the EU, with many semi-memberships and ambiguities": it has no presence in Nato, the UN Security Council or the International Monetary Fund. For Russia, the position is "unsatisfactory" with many exclusions, as the chart below shows. The US is the leader in all the clubs, with the exception of the EU/WEU/Council of Europe where it is an 'out'.

He then shows the same chart as it might be in 2010, with the EU present in its own right in all the organisations except Nato, where it would have some sort of associate status. By then, he envisages Russia having a special association with Nato on military matters, and with the EU on economic matters – as well as being a full member of the G7/8 (the world's main economic powers) and of the World Trade Organisation.

The Organisation for Security and Co-operation in Europe – to which both Russia and the US already belong – will have spawned a "European Security Council" on the model of the UN one – with the US, EU, Russia and perhaps Ukraine as permanent members.

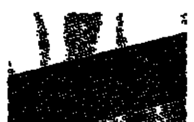
This scenario does not eliminate Nato enlargement, but helps us to see it as only one item in a longer-term shift. Europe's stability in the 21st century will depend on engaging Russia in the task of organising the continent's security, with the EU and the US.

That will work only if the EU endows itself with institutions capable of conducting a common foreign policy, that is, applying its economic power to the satisfaction of its members' security needs.

Russia's options

Politics and security	1996	2010
EU	✘	✘
Council of Europe	✔	✔
WEU	✘	✱
Nato	✘	✱
OSCE Security Council	–	✔
OSCE plenary	✔	✔
G8	✔	✔
UN Security Council	✔	✔
UN General Assembly	✔	✔

Economics	1996	2010
EU	✘	✱
OECD	✱	✔
EBRD	✔	✔
G7	✱	✔
WTO	✱	✔
IMF & IBRD	✔	✔



✔ Full membership
✱ Associated or applicant for membership
✘ No membership today or in sight

Source: Michael Emerson

*Nato Expansion: Time to Reconsider (British-American Security Information Council and Centre for European Security and Disarmament)

**Opening the door: The enlargement of Nato and the European Union (Centre for European Reform, 127 Wendel Road, London W12 9SD, £5)

***Re-drawing the map of Europe (Centre for Economic Performance, London School of Economics)

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site: http://www.FT.com Translation may be available for letters written in the main international languages.

Experts say genetic soybeans safe and need no special labels

From Michael A. Scharf.

Sir, Joe Rogaly's article "Beans and genes" (December 7/8) did not contribute very much to the genetic engineering debate. I'm not referring to his name-calling – "mad scientist soybeans", "futuristic corporation", "Big M" – to which I won't respond, nor to his self-acknowledged cynicism (which somewhat ruined his humour just as it was starting to amuse).

I'm just disappointed that he only gave a passing reference to the fact that experts and government agencies around the world, including the US, Europe/UK, Japan, Canada, Mexico and Argentina, have concluded unconditionally that Roundup Ready soybeans (RRS) are as safe as other soybeans.

Mr Rogaly says there would be no problem if only customers could be given the option through labelling of not buying products containing RRS. However, mandatory labelling of products such as these beans, which are unchanged in composition, nutrition, function and safety, would imply that these products are different from their unmodified counterparts when they are not. Again, the same regulatory authorities as mentioned above have concluded that there is no need for special handling or labelling because these soybeans are as safe as other soybeans and because they are substantially equivalent to other soybeans. All this was reaffirmed again by the Ministry of Agriculture Fisheries and Food's food advisory committee on December 12.

We are fully aware and accept that some may have concerns and questions about RRS, which is why we and others have opened consumer hotlines and produced information leaflets to address the issues. We remain at anyone's disposal to discuss the matter.

Michael A. Scharf,
Monsanto Services International,
Avenue de Tervuren 270-272,
Tervurenlaan 270-272,
B-11150 Brussels, Belgium

Standards recognised

From Mr John Roper.

Sir, Mr Patrick Moulette, secretary of the Financial Action Task Force on Money Laundering, is quite correct in saying (Letters, December 16) evaluations carried out on the Crown Dependencies and presented to the June 1995 FATF plenary meeting were not official FATF mutual evaluation reports.

These evaluations were carried out by officials from the UK Treasury, Home Office and Bank of England and an officer of the Centrale Recherche Informatie of the Netherlands Police Force. They found that the legal, financial and law enforcement structures in Guernsey were substantially in accordance with the FATF's 40 recommendations. The report concluded: "The attitude of Guernsey authorities towards money laundering is extremely healthy, and is reflected in the understanding of the issue among financial institutions and the population at large.

"There is a general belief in Guernsey that a clean financial sector is the best way of attracting business, and the authorities are keen that financial institutions that establish themselves on the island should not be seeking to avoid the rigorous level of financial supervision that they would be subject to within the European Union."

John Roper,
director-general,
Guernsey Financial Services Commission,
Valley House, Hirzel Street,
St Peter Port,
Guernsey, CI GY1 2NP

Ageing population no pensions disaster

From Mr Walter Stanners.

Sir, Another article about the pension time bomb ("Germany's pension time bomb", December 16)! Several of your columnists have covered this. It is obviously a good running story. In each article (and no doubt in many others throughout the press), the same scare vocabulary (time bomb, crisis, spiralling costs, impossible to maintain, huge strain, grave situation) and the same material (ageing population, fewer full-time workers, more casual work, rising non-wage costs, international competitiveness) are re-cycled.

Each closely examines the trees, while determinedly turning a blind eye to the wood. Not one, so far as I recall, has argued that the ageing of the population is going to to lead to an actual reduction of national income per head. If that were the story, then indeed the scare language would be warranted.

Nor has anybody explained why the projected rise in German pension contributions from 20 per cent now to 25 per cent of gross salaries in 2040 is such a disaster, while paying a large and growing fraction of one's income to a personal funded pension is OK.

Obviously, if we are going to live longer, and work for a shorter time (and outside of pension time bomb columns, we generally think of this as progress), we will have to consume less and save more during our working lives, and consume more and "dis-save" more in our non-working lives.

There may be a number of ways in which this ineluctable, but strictly undisastrous, trend is catered for in practice. It is by no means clear that the German notion, to "develop further the tried and tested treaty between the generations", is a bad one, although clearly it will provide fewer opportunities for profit to bankers and insurers.

Walter Stanners.
49b Fen End,
Over,
Cambridge CB4 5NE, UK

Unequal standards allow diesel engines to survive

From Mr Vic Heylen.

Sir, Stuart Marshall paints a rather rosy picture of the diesel engine and its potential for use in motor cars. ("Downhill days for diesels," December 14). In spite of impressive improvements a diesel engine is still noisier, smellier, heavier and more costly to produce than a comparable petrol engine. They admittedly use less fuel and therefore emit less CO_2 gases but also do not come anywhere near the performance of a petrol engine.

Most problematic, however, is their higher NOx and particulates emissions which are supposed to be carcinogenic. Whether the latter is true or not has become more or less irrelevant. Once a substance or a technology has acquired such an epigraph, its long-term survival is seriously threatened.

The truth of the matter is that, with exception of the UK, diesel technology survives mainly on artificially low fuel prices because of lower taxation and the fact that the European Commission allows more lenient exhaust emission regulations for diesels. If diesels had to meet the same standards as petrol engines, it would mean instant death.

This is another example where legislation hampers technical progress. Long ago it was the UK road tax system based on the bore size of an engine that kept long stroke engines alive, long after their inefficiency had been established.

The generous attitude of the Commission will persist as long as European car makers are able to convince the Commission that diesel engines are still a promising technology because of their lower emissions of CO_2 gases and therefore contribute to the reduction of global warming. The problem here is that, with the exception of some 400,000 in Japan, diesel engined cars are sold almost exclusively in Europe. They therefore contribute little to the solution of the "global" warming problem. This is in contrast to the diesel's NOx and particulate emissions which are a typical local pollution problem.

Convincing the Commission that diesel engines still deserve preferential NOx and particulates treatment will become even more difficult now that Japanese car makers have announced their direct injection petrol engines, with all of the advantages of the diesel engines and none of its disadvantages.

Vic Heylen,
managing director,
Analyse Auto,
Mechelse Stw.12,
2000 Antwerp,
Belgium

Personal View · Richard Layard

False fears about Emu

Opposition to UK membership of the single currency is based on unsound arguments

People worry that European economic and monetary union (Emu) will cost jobs. At a minimum, they say, the UK should wait and see. These arguments are generally based on several fallacies.

Fallacy 1. Emu is like the exchange rate mechanism (ERM), which the UK left in 1992 – but worse.

If the ERM was bad for jobs, why lock into another exchange rate arrangement?

The first answer is that the UK went into the ERM at an overvalued rate, and this is what destroyed jobs. Today the exchange rate of the pound is at a more sensible level.

Second, the ERM and Emu are quite different. Under the ERM, there is the possibility of occasional realignments of exchange rates. This exchange rate risk damages trade and increases interest rates. Under Emu, there are no European exchange rates, so this problem disappears.

And there is another huge difference. Under the ERM, the D-Mark operates as the anchor currency and the other countries peg to it. This means French interest rates are determined by the needs of the German economy, and this is bad for jobs in France. Under Emu, interest rates would be set by a representative European central bank.

Fallacy 2. The European central bank will damage the UK economy by imposing a deflationary monetary policy like the Bundesbank's.

But Germany's unemployment over the last 10 years has been lower on average than that in the UK or US. And German output and employment have been more stable than the UK's.

Bad monetary policy has given Britain three of the seven largest post-war recessions in the leading industrial countries. Under a European monetary policy there is good reason to expect both lower inflation, lower interest rates and more stable output.

We must of course retain the freedom of individual countries to offset country-specific shocks by the flexible use of budgetary policy. So Britain should ensure the "stability pact" governing budget deficits after Emu is flexible enough to do this. Similarly, the UK should encourage the European Council of Ministers to argue with the central bank if it is excessively cautious in its early years – as could happen in some macho show of strength.

> Under a European monetary policy there is good reason to expect lower inflation, lower interest rates and more stable output

British jobs depend heavily on European growth, whether in or out of Europe's currency. But only if the UK is in can it influence that growth.

Fallacy 3. The UK should not join until its real economy has converged with that of other leading EU economies.

The simplest form of this argument is that the UK must have higher productivity to compete internationally – and until productivity levels are up with the leaders, it is dangerous to join.

This is a simple misconception, since the ability to compete depends not only on productivity but on wages. Provided wages are in line with productivity, the UK can compete quite well – as is the case now, by and large.

If productivity really had to be uniform inside a currency union, different currencies would be needed in different parts of the UK and in different US states.

Another version of the argument, put forward by Eddie George, Bank of England governor, says there has to be real convergence in unemployment rates. But unemployment is determined in the long run by different forces from those which determine inflation and economic stability – mainly by labour market structure which always differs between countries.

A non-inflationary reduction of unemployment in all the countries of Europe is essential, and there are labour market policies that can achieve it. But that is a totally independent issue from the regulation of the UK's financial affairs: the case for joining the single currency rests on what it will do to inflation, economic fluctuations, trade and long-run growth.

A third version of the real convergence argument says the UK is very different from the rest of Europe in its industries and financial institutions, so an economic shock could affect Britain differently from the rest of Europe. The European central bank cannot be expected to lower interest rates to help the UK weather such shocks – any more than California can expect the same from the Fed.

But the UK is no more different from France and Germany in economic structure than California is from the rest of the US. So if California can safely use the dollar, the UK can safely use the euro.

Fallacy 4. The UK can afford to wait and see.

If most of the rest of the European Union was not joining the single currency, the UK could afford to wait too. But if the rest go ahead – as is now likely – the UK risks losing inward investment and business for the City if it does not sign up.

By prolonging uncertainty over membership of Emu, the UK risks higher interest rates, exchange rate instability and higher inflation. Waiting brings few advantages and will add to internal division and uncertainty. The backlash will be on output and jobs.

In early 1998 the UK will hold the European Union presidency. If the UK cares about jobs, it must take a lead in Europe rather than arguing endlessly at the back of the class.

The author is director of the Centre for Economic Performance at the London School of Economics

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday December 18 1996

Tough task for Tung

China brought Hong Kong a small step towards self-determination through last week's election of Mr Tung Chee-hwa as the territory's new chief executive. Though the process was hardly democratic, it did involve local people – unlike Britain's gubernatorial appointments thousands of miles away in Whitehall. But Saturday's appointment of a *provisional* Legislative Council will be an unequivocal step backwards.

The signs are that Hong Kong's population is largely resigned to the replacement of the existing, democratically elected body, and that it will not meet widespread protest. This is all the more reason for Mr Tung, who visits Beijing today, to work hard to limit the damage to the territory's interests.

Behind Hong Kong's success is its unique combination of Chinese entrepreneurial spirit with the impartial rule of British law. This equation will change with the handover.

Britain, regrettably, came late to the realisation that Hong Kong should have its own democracy, but its administration was at least accountable to a government in London that was itself directly elected.

China has no such tradition of accountability. That is why Hong Kong needs institutions capable of upholding the rule of law after the handover.

Hong Kong has been promised a high degree of autonomy. Mr Tung must stand up for that. It is in Beijing's interest, too, to prevent other mainland interests, such as the provinces, from meddling in the territory's affairs. Appropriate rank for Mr Tung in the Chinese hierarchy and continuing access to top leaders would help.

At home he needs to focus on fighting corruption, an issue about which he has said little so far. Most of all, though, he must persuade China to tread carefully with LegCo.

It will be hard even for China to claim that the law is being upheld unless the workings of the provisional body are transparent. Both before and after the transition, it should confine itself to the minimum legislation needed to ensure continuity. Mr Tung's promise of quick arrangements for a fresh election to a permanent LegCo are welcome, but the eligibility criterion should allow the broadest possible spectrum of candidates to stand.

Hong Kong will not thrive with a disaffected, disenfranchised middle class. It will prosper with government institutions that deliver accountability. Mr Tung can make a difference by bringing real meaning to China's oft-repeated mantra that Hong Kong people should govern Hong Kong.

Greek strife

For the past 20 days, Greek farmers have been blocking their country's roads to demand new tax breaks and subsidies from their socialist government. Yesterday they were joined on the streets by an unlikely alliance of doctors, diplomats, seamen and civil servants, all up in arms over the budget cuts proposed by Mr Costas Simitis, the prime minister. As the Greek parliament launches into its five-day budget debate, the demonstrators are hoping to bully the government into making last minute concessions to their various causes.

To his great credit, Mr Simitis seems to be determined to stand his ground. He has introduced a budget which will scrap a vast array of tax breaks, invented by former Greek governments over the years to buy off special interest groups. That was the way the system always worked: noisy protests persuaded the politicians to cut a deal and buy a few more votes.

The prime minister is blaming the Maastricht treaty for his tough line on taxation and spending. *It is certainly a good* excuse. If Greece is to have any hope of joining European economic and monetary union by the year 2001, it has to take drastic action to curb the public spending deficit, debt and inflation. His aim is to get the deficit down from the current 7.6 per cent of GDP to 4.2 per cent in 1997: that is very ambitious, but still a long way from the 3 per *cent Maastricht target.* Government debt stands stubbornly at around 110 per cent of GDP, and inflation was running at 7.7 per cent in November. There is no way Greece can qualify for the first wave of Emu entrants, but Mr Simitis is determined to try for the second.

The fact is that the Maastricht criteria are giving the Greek prime minister the inspiration, and the external discipline, to impose control on notoriously lax state spending. He should hold the line against the likes of the cotton farmers, who have benefitted for years from ill-policed Brussels subsidies. They are right to ask for a clear government policy, but their demands for massive debt relief and VAT exemptions are quite unjustified.

The civil servants who went on strike yesterday have no better a case, and little public sympathy. Their proposed pay rise is above the rate of inflation, and far too many *supplement* their wages by demanding bribes for performing the most modest tasks, like issuing birth certificates.

Mr Simitis has a long way to go to reform the culture and practice of Greek public life. Meeting the Maastricht criteria is a first step. Maintaining that discipline for years to come will be much tougher. But thanks to Maastricht, Mr Simitis is making a determined effort to do what his predecessors signally failed to attempt.

Saunders' rights

The European Court of Human Rights invariably grates on sensitivities in Westminster when it points to infringements in the UK. Its finding in favour of the former Guinness chairman Mr Ernest Saunders, who claims to have been unfairly jailed for theft and false accounting after the takeover of Distillers in 1986, will no doubt prompt more irritation. Yet the court's criticism of the procedures at the trial were, on the narrow point at issue, justified.

The prosecution made use at the trial of interview material compulsorily obtained from Mr Saunders in the course of a Department of Trade Investigation. The use of such information, obtained in a non-judicial framework before charges had been brought, has long been regarded as controversial. The court concluded, not unreasonably, that it constituted a marked departure from fair procedure and thus an infringement of Mr Saunders' basic right not to incriminate himself.

That does not imply that Mr Saunders has now been vindicated. The court chose not to speculate on whether the outcome of the trial would have been any different if the interview transcripts had not been used. It also rejected his claim for damages. Nor does it follow that the behaviour in the Distillers affair was acceptable. Large companies cannot be allowed, as in the bid for Distillers, to change hands on the basis of false information in a market that has been secretly rigged.

It has long been appreciated that the wide investigative powers of DTI inspectors are open to abuse. In the light of criticism inspectors have, in recent years, taken trouble to ensure that the powers are exercised with great care. As long as that continues to be so, there is no case for curbing them. Even if, following the Strasbourg judgment, use of compulsorily obtained information in court can no longer be justified, interviews may still lead the inspectors to other witnesses who can offer admissible evidence.

As for the Serious Fraud Office's powers of compulsion, the circumstances in which such evidence can be used in court are so limited and specific that the Strasbourg Court might well take a more tolerant view if it ever came to the test.

The court's verdict inevitably means that it will become harder to obtain convictions in complex fraud trials. That underlines the pragmatic case for encouraging greater use of civil remedies in dealing with white collar offences. But the option to take the criminal route should still be kept wide open for all those forms of financial skulduggery which society deems appropriate for criminal sanctions.

Easington after the pit closures: her future may be bleak but regional economic initiatives could help her children

Picture: North News

Nice work if you can get it

Stefan Wagstyl on the the widening gap between the poor areas in the north of Britain, where jobs are scarce, and the rich south

In the former mining village of Easington, County Durham, all that remains of the colliery are piles of crushed concrete and rusting steel bars. There are so few jobs that the parish council received 300 replies when it advertised for a grave-digger.

"It was heart-breaking trying to decide who should get it," says Mr Dennis Raine, a retired miner who is parish council chairman. "There's almost no other work here."

About 300 miles to the south in Fleet, Hampshire, there are so few unemployed that a local recruitment company is offering £50 bounties to people who put forward candidates for jobs as factory hands. Mr Roly Newman, the agency's operational director, says he has about 100 vacancies on his books. "With Christmas coming, the retailers will get busy. It'll get worse."

The divide between Easington and Fleet highlights a central finding of a report published last month by the European Commission – that Britain's regional differences are getting bigger.

While economic modernisation since the second world war helped to close the gaps between western Europe's richer and poorer countries, there remain wide differences in standards of living at the regional level. These differences are larger in the UK than in other countries, the report says.

The UK government has rejected the report's findings. Mr Ian Lang, trade and industry secretary, says: "Anyone visiting the regions of the UK, rather than *writing reports from Brussels* would see for themselves the transformation in prosperity and prospects."

But there is a large body of evidence to back the Commission's stance. A study of the 459 district councils in England, Wales and Scotland published this autumn by the Henley Centre, the economic forecasting organisation, found that the gap between rich southern districts and poor areas which are mainly in the north were widening.

"Recent rumours of the death of the north-south divide have been greatly exaggerated," the Henley Centre concluded. "Regional divides are actually deeply entrenched in the structure of the economic system."

The gap narrowed in the early 1990s when the recession hit the south particularly hard. But it has widened in the last year as the economy has recovered more strongly in the south. The difference in jobless rates between northern England and the south-east, which was as little as 1.8 percentage points in 1993, is now 2.5 percentage points.

Other figures confirm the picture. *Per capita income* in the south-east is 20 per cent higher than in the rest of Britain. Southerners are also likely to be better qualified than northerners, have bigger homes, and live longer.

There have been recent successes in government efforts to bring jobs to poor regions. North-east Scotland has benefited from the North Sea oil boom and Northern Ireland from an expansion of civil service posts. Scotland, south Wales and northern England have gained from a series of foreign investments, including Nissan Motor on Tyneside, and from government-funded urban regeneration programmes in areas such as Merseyside and South Yorkshire.

But the net effect of government intervention and foreign investment is modest when set against economic activity as a whole. Even the UK's impressive flow of foreign direct investment – £8bn in the year to March 1995 – pales in comparison with overall investment across the country of £100bn annually.

The scale of the challenge is illustrated by the contrasts between Easington and Fleet. Easington was ranked by the Henley Centre as the district with the worst economic prospects for the next five years. Fleet, the centre of Hart district, was ranked one of the top three, along with Harborough in Leicestershire and Cambridge.

The news came as little surprise to Easington district, which lost 12,000 jobs in mining and related industries in the pit closures in the early 1990s. The district covers the former mining communities of Easington and Seaham and the concrete 1960s new town of Peterlee.

Unemployment has been kept in check by the success of foreign investors, including TRW, the US car parts group, and NSK, the Japanese ball-bearings maker. But at 14 per cent, the jobless rate is still almost double the national average. "It's worst for men in their 40s and 50s," says Mr Bill Scorer, the district council's head of economic development. "They have little chance."

There are pockets of enterprise such as Surgecam, a company employing 90 people making electronic parts for televisions. It *started* by making cables for the collieries and diversified before the mines closed. Mr Brian Carr, the founder, says: "We saw which way things were going."

Mr Scorer and his colleagues at the council are not short of ideas. "The place to be" is the slogan on Easington's page on the Internet. Yet the impression is of a place which awaits salvation from the outside. The focus of attention is a £120m scheme to rebuild Seaham harbour, but it will not go ahead if a bid for £20m government aid fails.

As Mr Scorer says: "We just go on submitting for funding from whatever source."

Thriving Odiham: 1,500 residents run 150 businesses

Local people seem to lack the initiative, skills and means to build for themselves. There is little local capital – the miners earned between £200 and £300 a week, but saved little.

Despite the lack of jobs, people are reluctant to travel far for work. Even 30 minutes is regarded as a long commute.

Easington is free of most of the social ills of the inner cities – drunkenness, drugs and crime. But it also lacks drive: it feels remote, even from Newcastle which is only 20 miles away.

By contrast, Fleet is a full 50 miles from central London, but *has good connections to the capital* with trains running every 30 minutes. Two-thirds of the working population travels out of the district to work but the traditional dependence on London is falling with the growth of new jobs nearby in Basingstoke, Reading and Heathrow airport.

The first big investor in the area was the army, building bases at Aldershot in the 1950s, followed by defence equipment manufacturers. Then came electronics and information technology companies including Data Sciences of the UK, Toshiba of Japan and Finland's Nokia.

Together they have spawned a host of service businesses, including recruitment agencies, computing bureaux and financial advisers. "It's self-fuelling," says Mr Bill Ellis, a director of Data Sciences, which is now a subsidiary of International Business Machines.

The district was hit by the 1990s recession when unemploy*ment soared to 7 per cent. But it* is back down to 2 per cent. The villages hide their share of early-retired executives but these are often people with savings.

They frequently start businesses, even if it is only to keep busy. In the picturesque hamlet of Odiham, 1,500 residents run 150 businesses, according to Mr Tim Paton, a toy importer. They range from pubs and antique shops to self-employed designers, writers and wine merchants.

Mr Chris James, the district planning chief, believes the dynamism is self-feeding. "We don't like to lie back and let things happen. We get on with it."

The heart of the problem, as the Henley Centre report says, is that regional economic development is mostly influenced by factors within a region. The study follows the analysis of Professor Michael Porter in his book *The Competitive Advantage of Nations*.

He argued that competition among advanced economies depends less on cost advantages such as low wages and more on a complex network of elements. These include the presence of *sophisticated local customers*, competitors and suppliers; a pro-business environment; skilled labour and an entrepreneurial tradition.

Applied to the UK, the argument means the south-east's advantage in its concentration of high-skilled, motivated, entrepreneurial people more than offsets the fact that labour costs are well above the rest of the UK.

The implication is that there is little governments can do in the short term to close the divide between rich and poor districts. It should concentrate on long-term policies such as improving education and encouraging local solutions for local problems.

That certainly finds favour in Whitehall. Under the Conservatives, the emphasis has been on encouraging regions to bring forward economic initiatives developed between public and private sector groups.

This would be unlikely to *change under a Labour govern*ment, since the party is committed to creating regional authorities. As Mr Richard Caborn, Labour regional affairs spokesman, says: "I am absolutely convinced that we must tackle this problem at the regional level."

The difficulty is that this approach will bring little early relief to economically backward districts. The ex-miners of Easington are most unlikely to benefit, even if it pays off for their children and grandchildren.

· OBSERVER ·

Juppé speaks in volumes

■ Do the energies of Alain Juppé know no bounds? The French prime minister already combines his testing day job with the mayorship of Bordeaux and presidency of the RPR, the ruling Gaullist party. Next week he makes his debut *as a man of letters* with the publication of his first book.

Under conditions of great secrecy, Juppé negotiated with a publisher, wrote and had printed "Entre nous" – or "between us" – a book in which he tries to *circumvent the media and speak* directly to the electorate. Juppé says he decided to put pen to paper after passing a young woman in the street in Bordeaux who shouted: "Death to the bastard!". The episode left the sensitive soul feeling misunderstood.

The whole process took little more than a month; not bad going for a prime minister with a reputation for close involvement in every decision taken by his government. The tireless PM must have stayed up especially late after dealing with sensitive policy matters such as the privatisation of Thomson, striking truck drivers and European monetary union.

Of course cynics suggest the book is just the latest ploy masterminded by his communications advisers. They have already had Juppé appear at football matches and meet Olympic skiing champions to improve his "man of the people" image at a time when his popularity is at record lows. No doubt his second wife Isabelle, herself a journalist, also took a passing interest in the manuscript.

Home-made jam

■ Officials at Manila's Ninoy Aquino International Airport have launched an appeal aimed at cutting down the city's infamous traffic jams. The airport authorities are begging the families of workers returning from overseas not to clog the already congested roads by descending *en masse* to welcome home their loved ones.

Tailbacks are so bad that it can take up to three hours to travel the 12km from the airport to the city centre.

But Filipinos are hospitable and welcoming people and the appeal is falling on deaf ears. The scale of the problem is not to be sniffed at: there are an estimated 4.2m Filipinos working overseas and about 2,000 are arriving daily at the airport to be greeted by busloads of relations.

The government is also doing its best to put on a warm welcome with red carpet treatment that includes special lanes at immigration, a live band, and the chance to shake hands with President Fidel Ramos. If this sounds over-the-top, it is worth remembering that overseas workers will contribute an anticipated $7bn to the Philippine economy this year and are acclaimed as national heroes. *Shame they have to stew* in traffic jams like everyone else.

Robbing hoods

■ Pensioners in the west of Ireland can rest more easily in their beds this Christmas in the knowledge that officers from the Garda – supported by an Irish Air Corps helicopter – are keeping an eye on the countryside.

The Garda's Operation Retrieval is a belated response to the growing number of robberies of remote farmsteads. This weekend a Galway pensioner was robbed of I£150 in cash – although the game 76-year-old did manage to wound one of the intruders with his shotgun. Many raids are thought to be carried out by organised gangs from Dublin looking to rob farmers of their life savings.

Opposition party Fianna Fail, which has strong rural support, is suggesting a more elegant solution than the mass deployment of cops and helicopters. It has called for legal changes so that bank deposits are no longer taken into account when means-testing state pensions. As the law stands many Irish prefer to keep their savings under the mattress rather than risk losing their pension rights. Sounds like a suggestion worth sleeping on.

Round the Benz

■ New Thai finance minister Amnuay Viravan yesterday proposed to slash government spending on inessential items, especially those imported from overseas. If recent purchases by the office of prime minister Chavalit Yongchaiyudh are anything to go by, he will have trouble reaching his goal.

Less than a month after taking office, Chavalit has reportedly spent $324,000 on a brand new Mercedes-Benz S500. Four imported 7-series BMWs, priced at a total $440,000, will also be purchased for ministers in the PM's office.

Boonchong Weesommai, Chavalit's secretary-general – and the man responsible for the upkeep of official vehicles – is also entitled to a government car and he says he too wants a new one. The three-year old Mercedes used by the former premier Chuan Leekpai is not suitable, he says.

The Financial Times

100 years ago

The United States and Cuba
Our Washington Correspondent telegraphs that it may be safely stated that the Maceo incident passed without causing the trouble that it at first threatened. A careful investigation of official sentiment in Washington shows that there is now a more pacific feeling than at any time since intervention by the United States was first seriously considered. There is in fact no disposition to connect the Spanish Government with the assassination of Maceo. A member of the Spanish Legation at Washington stated yesterday that if the Jingo Congressmen and newspapers did not adopt a more respectful tone, it would be impossible to restrain the Spanish people from declaring war.

50 years ago

French Budget Proposals
The new French Cabinet meets tomorrow to examine the Budget for the first quarter of 1947 and its proposals will be submitted to the Assembly on Thursday or Friday. The Prime Minister, M. Leon Blum, indicated that the Government aims at establishing the equilibrium of the ordinary Budget by imposing sacrifices and drastic economies, and emphasised its intention to check tax evasion.

FINANCIAL TIMES
Wednesday December 18 1996

Zaire shuns peace talks as Mobutu returns home

By our foreign staff

President Mobutu Sese Seko of Zaire returned home yesterday after four months abroad in an attempt to reassert his faltering authority and quell a rebellion on the country's eastern border.

Earlier in the day, African leaders attending a summit in Nairobi announced that President Nelson Mandela of South Africa would help lead an African initiative to mediate in the conflict, which threatens to destabilise Zaire and the Great Lakes region.

However, Zaire boycotted the summit and its absence prevented any real breakthrough, delegates said.

Mr Mobutu, 66, received an enthusiastic welcome from thousands of supporters who packed Kinshasa airport to greet him on his return from Europe, where he had surgery for prostate cancer.

The crowd, some of them wearing copies of the leopard-skin hat that has become the president's trademark, surged forward as the aircraft taxied to a halt. Mr Mobutu smiled broadly as he walked down the steps with his wife, Bobi Ladawa, to cheering, drumming, music and chanting.

"No words can express the profoundness and intensity of the emotions I feel now," Mr Mobutu said later in a brief speech, broadcast nationally.

While making no mention of the anti-government rebel movement, he said that "enemies of democracy" were "taking advantage of my illness to stab me in the back".

He added: "Against the advice of my doctors, I decided to interrupt my convalescence to take personal charge of the situation which is threatening the territorial integrity of Zaire."

At their meeting on Monday, nine African leaders warned that security had worsened in the region, comprising Zaire, Rwanda, Burundi and parts of Uganda and Tanzania, since their last meeting on November 5.

In a communique released yesterday, the leaders renewed their appeal for a ceasefire in eastern Zaire and called upon the parties to the conflict "to commit themselves to a negotiated, peaceful settlement".

The summit chose Mr Mandela and the presidents of Kenya, Zimbabwe and Cameroon "to take the necessary initiatives and steps aimed at assisting in the ending of the conflict in eastern Zaire and promoting peace, stability and security in the country and in the Great Lakes region".

Since November, 800,000 Hutu refugees have had to return to Rwanda, from where they fled after the 1994 genocide against the Tutsi minority. Mr Paul Stromberg, a spokesman for the UN High Commissioner for Refugees, said 160,000 more refugees were yesterday moving towards the Rwandan border.

Bank of France cuts key interest rates

By Andrew Jack in Paris

Price stability and renewed confidence in French progress towards monetary union prompted the Bank of France to cut two important interest rates yesterday.

The bank said conditions were now right for growth in domestic investment by businesses and households.

The intervention rate, one of the key short-term interest rates, was reduced from 3.2 per cent to 3.15 per cent, and the five-to-10 day lending rate from 4.75 per cent to 4.6 per cent.

Some economists had been predicting a cut in the wake of the progress made towards monetary union at last week's Dublin summit. They said the cuts were essentially political and too small to help the French economy.

In his annual address on monetary policy yesterday, Mr Jean-Claude Trichet, governor of the Bank of France, said that France had achieved the "ultimate goal" of price stability. Inflation would be less than 2 per cent during 1996, in line with the objectives of the monetary policy council.

He said the council's aim of maintaining a stable franc against other "credible" currencies within the European exchange rate mechanism had been met, and there had been a rise in the overall competitiveness of the French economy. "The move towards monetary union was confirmed decisively at the summit," he said. He added that France's medium and long-term interest rates were the lowest in the EU, and the third lowest in the world, after Japan and Switzerland.

His confidence came in spite of a study produced this week by Insee, the national economic statistics institute, suggesting France's record unemployment – 12.6 per cent of the working population or 3.1m people – was likely to rise to 12.7 per cent in the first quarter next year.

It said the impact of measures designed to cut unemployment such as apprenticeships – which have been hit during a period of budget cuts – would not be sufficient to offset the rise in the size of the working population.

There was no evidence yet that reforms to reduce the cost of hiring employees had led to an increase in jobs.

Mr Trichet said France "could do better" and argued that in the medium term the economy could grow by about 2.5 per cent annually, without risking an increase in inflation.

Warning on euro, Page 3
Currencies, Page 29

Malaysia changes finance plans for Sarawak dam

By James Kynge in Kuala Lumpur

Mr Ting Pek Khiing, the Malaysian construction magnate, has revised controversial financing plans for the building of a M$13.6bn ($5.4bn) hydroelectric dam in Sarawak, one of south-east Asia's biggest infrastructure projects.

Foreign economists had criticised the project – one of several grandiose schemes backed by Dr Mahathir Mohamad, Malaysia's prime minister – as too ambitious.

The lead contractors for the Bakun dam are the Swiss-based engineering group, Asea Brown Boveri, and Companhia Brasileira de Projectos e Obras, a Brazilian company.

Mr Ting said yesterday a previous plan to raise M$5bn from issuing 4bn shares in a new company had been dropped. Instead, he hopes to raise M$6bn over 12 months from flotation of the new company, Bakun Hydroelectric. An initial share issue, expected in the first half of next year, would comprise 1.5bn shares priced at M$2 each, and would be followed by a rights issue of another tranche of 1.5bn shares about 12 months later.

"We have revised the share issue [plans] a little bit," said Mr Ting.

The remaining costs of the project, about M$7bn, would be covered by issuing bonds and borrowing from banks about three years after Bakun's shares were floated, he added. The proportion of the M$7bn to come from bonds and the proportion from bank loans had not yet been decided.

But the new financing strategy, which has been submitted for approval by Malaysia's stock exchange authorities, was greeted with little more enthusiasm than the old. One foreign economist in Kuala Lumpur said many investors might still feel exposed to a level of risk that was not justified by the relatively meagre projected returns.

The new financing plan was launched after claims that the earlier provision was unrealistic. The main cause for doubt was that Bakun was not due to start commercial operations until August 31 2003. Shareholders would have been exposed for about six years to the risks of a difficult engineering project without the promise of operating income.

Commenting on the new plan, Mr Peter Ling, a director of Ekran, the controlling shareholder in Bakun, said the company's projected return on equity would be 12 per cent, several percentage points lower than less risky power projects.

However, Mr Ting said that if the construction of the 2,400MW dam or a 1,350km transmission cable – about half of it under the sea – resulted in cost overruns, the contractors, and not the Malaysian company, would be liable for the extra expense.

Swiss drugs merger wins US backing

Continued from Page 1

($27.2bn). The technologies Novartis will have to offer in exchange for other companies' intellectual property are a cancer treatment called HSV-tk (herpes simplex virus thymidine kinase), gene therapy conducted outside the body and related technologies.

Novartis must grant a non-exclusive HSV-tk licence to *Rhône-Poulenc Rorer the US* company controlled by Rhône-Poulenc of France. It will also *pay $60m over five years in* HSV-tk royalties to Chiron, the California biotechnology company part-owned by Ciba.

The approval allows Novartis to implement merger plans that have been ready for months. About 10 per cent of the workforce, 12,000 staff, will be cut, mostly in administration and marketing, with research, development and *sales barely touched.*

The company expects a one-off after-tax restructuring *charge of SFr3.5bn in 1996,* which will be offset by after tax gains on asset disposals of SFr1.5bn. Net income next year is expected to be about SFr4bn, similar to last year's figure. Mr Raymond Breu, finance director designate, said the group would show continuing growth next year.

The rationalisation will lead to annual savings of about *SFr2bn, SFr200m more than* the original estimate.

THE LEX COLUMN

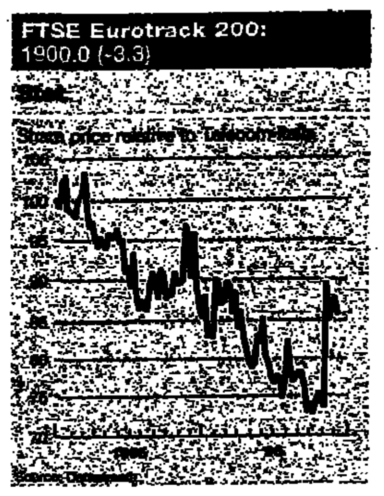
Fat of the land

A subsidy by any other name smells just as rotten. That, it seems, is the robust attitude of Mr Karel Van Miert, European competition commissioner, to Germany's state-guaranteed Landesbanken. Quite right too: these banks, though mostly not well capitalised, enjoy top-notch ratings – often triple A – simply because the state stands behind them. They can therefore borrow more cheaply than private sector competitors. With the Landesbanken active in markets such as corporate lending, this is not just an academic worry. Some, notably Westdeutsche Landesbank, even have lofty ambitions in international investment banking.

Clearly, the present unlimited guarantee to these banks is an anachronism. Yet the right solution is not just to remove the state guarantees but to privatise the banks entirely. Until then, the relaxed attitude of the Länder to Landesbanken profitability is bound to distort Germany's banking market.

Sadly, however, any change faces a formidable obstacle: Chancellor Helmut Kohl, who seems determined to curry favour with the Länder and preserve the status quo. Not only does this make his claimed enthusiasm for the European single market look shaky; if he succeeds, it will weaken the European Commission's hand in opposing state aids elsewhere. Yet all may not be lost. Even if Mr Kohl persuades the Commission to turn a blind eye, the Landesbanken guarantees look vulnerable to legal challenge from aggrieved competitors. Let us hope so.

FTSE Eurotrack 200:
1900.0 (-3.3)



Stet/Telecom Italia

Since Italy said it would merge its two main telecoms companies last month, their shares have fared differently: those of Stet, a holding company, have shot up about 20 per cent; but those of Telecom Italia, an operator owned mostly by Stet, have been flat. All this has happened although the government has given no indication of what the exchange rate between the two companies' shares will be. Markets have taken a cynical view: since the government ultimately owns less of TI than Stet, it will have an incentive to skew the exchange rate in Stet's favour.

Some investors even think a skewed rate will be justified by reference to current market prices. Such a "justification" would be not only illogical, since the share prices are only where they are because markets suspect a government fix, but also unfair. Normally in a merger, benefits are split between both sets of shareholders, not gobbled up by just one. It would be more reasonable to pick the market exchange rate before the government announced the merger.

Quite apart from being fair, this might even be in the state's interest. It has surprisingly little to lose from treating TI's shareholders decently because it has a large indirect stake in the company: using the pre-announcement exchange rate would boost TI's value by about 15 per cent but knock Stet's by only 5 per cent. Moreover, the state has an incentive to keep TI's shareholders sweet; it hopes next year to sell its remaining Stet stake to the same investors.

Commercial Union

The spotlight of market rumour swings more wildly in the insurance sector than most, but even by these standards Commercial Union is caught in the beam with conspicuous frequency. Certainly, after a year of underperforming its composite competitors, CU's shares have in recently at last begun to outperform. Partly this reflects recognition of CU's virtues, notably its heavy weighting towards life business. But constant bid talk has also been a powerful factor.

In essence there are two possibilities. First is that a non-UK insurer – Allianz is the usual suspect – might see CU's range of businesses as an attractive strategic add-on. The snag is that, precisely because there is not much overlap, combining CU's and Allianz's activities would create little value to offset the premium Allianz would have to pay. Of course, Allianz could still make a move in order to wrest back the title of Europe's biggest insurer from Axa. But its own shareholders would probably regret it.

A far more sensible alternative would be a Royal Sun Alliance-style merger of CU with another UK insurer. If such a deal did emerge, without CU paying a fat premium, it could make powerful sense. Not only would there be benefits from cost-cutting but CU's rivals could also do with a dose of its level-headed management. Still, CU's shareholders had better hope it does have a deal up its sleeve. Otherwise, at a premium of 15 per cent or more to net asset value, the shares look vulnerable to disappointment.

FKI/Newman Tonks

Newman Tonks will be hard-pressed to escape FKI's clutches. The architectural hardware group has performed so dismally in recent years that even M&G, which normally backs incumbent management, is supporting FKI. Given that M&G has irrevocably committed its 11 per cent stake to FKI, it could even be hard for Newman to lever the price up; white knights will be deterred by the fact that the largest bloc of shares is already spoken for.

For FKI, the proposed acquisition looks strategically sound. It is a fair bet that the engineering group's management can boost Newman's margins; even if FKI can only partly narrow the gap between Newman's 6 per cent margins and its own 16 per cent margins, there would be a healthy increase to earnings. There should also be benefits from combining Newman, which is strong in Europe, with FKI's hardware business, which is mainly located in the US: factories could be rationalised and products cross-sold, while the enlarged operation would have greater pricing power.

More broadly, the bid marks a further step in FKI's transformation from a ragbag of scattered engineering businesses into several focused international divisions. The material handling and electrical engineering operations already have near-critical mass; if the bid succeeds, the same will be so of the hardware business. That leaves FKI's automotive division as the only sub-scale division. As its next step, FKI should consider beefing it up or selling out.

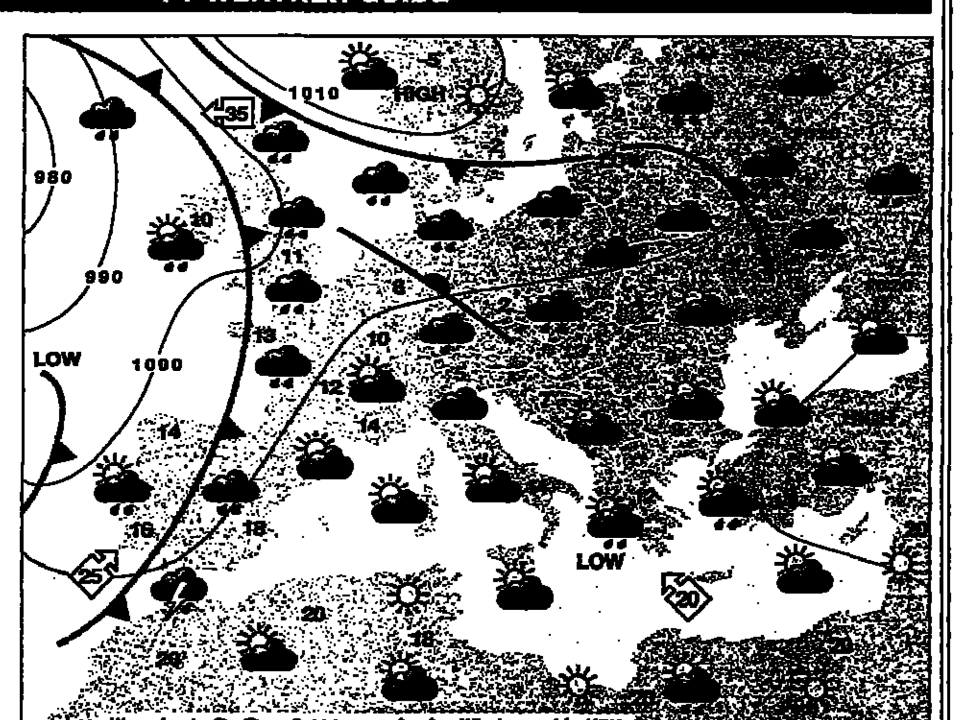
FT WEATHER GUIDE

Europe today

Temperatures will stay below freezing in Scandinavia. Western Europe will be milder. An area from the UK across the Benelux into Germany will be very cloudy. England and Scotland will have outbreaks of rain. Western France, Portugal and Spain will have cloud and rain. The Alps, Poland and western Russia will also have plenty of cloud with some snow in Russia. South-eastern Europe will have some cloud and showers. Italy and the Balkans will be mainly dry.

Five-day forecast

Cloud and rain will continue to sweep across most areas. The Alps will have snow at high altitudes. Western Europe and the UK will stay mild and rainy, but cold air will move south by the end of the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
Abu Dhabi	sun 24	Beijing	sun -1	Caracas	fair 30	Faro	rain 18	Madrid	rain 12	Rangoon	sun 32
Accra	fair 30	Belfast	rain 10	Cardiff	rain 11	Frankfurt	cloudy 8	Majorca	fair 17	Reykjavik	fair -2
Algiers	fair 21	Belgrade	fair 9	Casablanca	rain 20	Geneva	fair 7	Malta	fair 17	Rio	shower 28
Amsterdam	rain 8	Berlin	cloudy 1	Chicago	cloudy -8	Gibraltar	rain 16	Manchester	rain 10	Rome	fair 16
Athens	shower 15	Bermuda	fair 23	Cologne	drzzl 8	Glasgow	rain 8	Manila	cloudy 31	S. Frsco	fair 16
Atlanta	rain 8	Bogota	shower 19	Dakar	sun 29	Hamburg	cloudy 2	Melbourne	fair 19	Seoul	sun 0
B. Aires	fair 31	Bombay	sun 35	Dallas	cloudy -2	Helsinki	cloudy -5	Mexico City	fair 22	Singapore	fair 31
B.ham	rain 11	Brussels	rain 9	Delhi	sun 26	Hong Kong	sun 19	Miami	fair 27	Stockholm	fair -3
Bangkok	fair 33	Budapest	cloudy 6	Dubai	sun 25	Honolulu	fair 26	Milan	cloudy 7	Strasbourg	cloudy 10
Barcelona	rain 15	C.hagen	rain 4	Dublin	rain 11	Istanbul	fair 12	Montreal	rain 7	Sydney	rain 23
		Cairo	sun 19	Dubrovnik	shower 14	Jakarta	shower 29	Moscow	snow -4	Tangier	rain 18
		Cape Town	shower 17	Edinburgh	rain 8	Jersey	rain 10	Munich	drzzl 7	Tel Aviv	sun 19
						Karachi	sun 28	Nairobi	fair 29	Tokyo	fair 11
						Kuwait	sun 19	Naples	fair 16	Toronto	fair 2
						L. Angeles	fair 22	Nassau	fair 27	Vancouver	cloudy 3
						Las Palmas	drzzl 24	New York	rain 13	Venice	fair 8
						Lima	fair 23	Nice	shower 15	Vienna	rain 7
						Lisbon	shower 16	Nicosia	fair 17	Warsaw	cloudy 0
						London	rain 11	Oslo	fair -3	Washington	rain 13
						Lux.bourg	cloudy 7	Paris	cloudy 10	Wellington	rain 19
						Lyon	fair 12	Perth	sun 30	Winnipeg	snow-19
						Madeira	shower 21	Prague	drzzl 3	Zurich	cloudy 5

هكذا من الاصل

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1996 Wednesday December 18 1996 Week 51

IN BRIEF

Skandia drops out of merger

Skandia, the leading Nordic insurer, has conceded defeat in its quest to merge with Stadshypotek, the Swedish mortgage bank. It said it had withdrawn its offer because of lack of support from the Swedish government – Stadshypotek's biggest shareholder. The government favoured a rival bid by Svenska Handelsbanken. Page 22

Murdoch spurns French satellite move
Rupert Murdoch's News Corporation has turned down an opportunity to join a consortium in France about to launch a digital satellite service to compete with Canal Plus, the established subscription TV service. It is believed News Corp was in talks to take a possible one-third stake in the project for more than $200m. Page 22

Owens-Illinois buys 76% of Avir
Owens-Illinois of the US is set to become Europe's second-largest manufacturer of glass containers after its purchase of 76 per cent of shares in Avir of Italy. Milan-based Avir has about 50 per cent of the Italian market in glass containers. Owens will launch a tender offer for the 21 per cent of shares which are publicly owned and quoted on the Milan stock market. Page 25

Eurotherm expects profits downturn
Eurotherm, the UK industrial controls manufacturer, is expecting sterling's strength to knock slightly more than 5 per cent from pre-tax profits this year. The UK contributed less than a quarter of the group's total sales in the year to October 31. Page 26

Italy to sell 60% of ailing bank
The Italian treasury said it had kicked off a 1,977 trillion lire capital increase for troubled Banco di Napoli. It said it had begun the underwriting for the operation, designed to recapitalise the ailing bank which it took control of after it unveiled record losses of L3,120bn ($2bn) in 1995. The Treasury is auctioning off a 60 per cent stake in the bank, the biggest in southern Italy. Italian insurer INA said earlier it was preparing a bid together with state-controlled Banca Nazionale del Lavoro.

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			**PARIS (FFr)**		
Rises			**Rises**		
Hagen Batt	225	+ 21.75	Cofigeo	1300	+ 140
Porsche	1285	+ 55.0	Eri Spa	7820	+ 150
Preussag	580	+ 20.0	Montaigne Prt	1370	+ 140
Falls			**Falls**		
Allianz	2790	− 38.0	B Ridouroux	3290	− 149
BASF	58.4	− 1.85	Ferm Cas Can	4980	− 390
Bayer	59.9	− 1.85	Pin Torr Rge	805	− 105
NEW YORK ($)			**TOKYO (Yen)**		
Rises			**Rises**		
Engy Ventures	50¾	+ 3⅜	Bold Crebio	813	+ 50
First Data	37¾	+ 2⅛	Mitsumi Elec	2140	+ 180
Lexmark Intl	24	+ 1⅛	Tochigi Bnk	1200	+ 80
Falls			**Falls**		
Frontier	20¼	− 5⅛	Dai Ichi Kog	710	− 59
LCI Intl	25½	− 2¼	Kokuyo	3030	− 130
Pep Boys	31⅛	− 3	Nr Max	1800	− 70
LONDON (Pence)			**HONG KONG (HK$)**		
Rises			**Rises**		
Burnfield	138	+ 38	Gasco Grp	42.7	+ 0.5
Higgs & Hill	88½	+ 12	H Kong Ferry	14.85	+ 0.6
Lasica Trust	1150	+ 172½	Smartone Tele	15.25	+ 0.6
Falls			**Falls**		
ClubPartners	2½	− 5	HSBC Hldgs	185.0	− 1.5
Sherwood Grp	41½	− 17	Hang Seng Bk	88.5	− 1.25
Sys Int Res	27½	− 10	Sun Hung Kai	91.0	− 2.0
TORONTO (C$)			**BANGKOK (Baht)**		
Rises			**Rises**		
Electrohome	8.25	+ 1.1	Asian Sea Fd	48.25	+ 3.25
Samuel Manu	19.0	+ 1.5	Robinson Dept	22.5	+ 2.0
Schneider	12.0	+ 1.0	Trang Sea Fd	32.5	+ 2.0
Falls			**Falls**		
Chrysler	44.0	− 2.25	Intl Eng	51.5	− 6.5
Dorilea	18.0	− 1.5	Mutual Fund	127.0	− 11.0
Draco Engy A	48.3	− 4.7	Srivara Real	30.75	− 3.25

New York and Toronto prices at 12.30pm.

Telefónica secures CRT stake

Consortium pays $656m for 35% of Brazilian telecoms company

By Geoff Dyer and Jonathan Wheatley in São Paulo and Tom Burns in Madrid

A consortium including Telefónica Internacional of Spain became the first foreign group to take an operating stake in Brazilian public telephony yesterday when it bought 35 per cent of CRT, an operator in the southern state of Rio Grande do Sul.

The R$681m ($656m) sale marks the start of a process that the federal government hopes will attract $100bn of investment during the next six years as the country's telephone network is restructured and sold.

The Telefónica consortium, which also includes local investment group RBS Participações, Citicorp of the US and operators CTC of Chile and Telefónica de Argentina, beat a rival bid from a consortium including Stet of Italy.

Telefónica's bid was 54.8 per cent higher than the minimum sale price of R$440m. Operating control of CRT will be shared between the Telefónica consortium and the state government.

Telefónica's successful bid is an important lift for the Spanish telecommunications group as it prepares for full privatisation early next year in a global offering worth some $3.5bn.

The Brazil acquisition will further raise Telefónica's profile in Latin America, where it is already the dominant foreign telecoms operator with key industrial stakes in Argentina, Chile, Peru, and Venezuela.

Telefónica's winning bid was just R$4m more than that of Stet of Italy.

"We are delighted," said Telefónica in Madrid. "CRT is exactly where we want to be; a frontier zone with lots of potential corporate cross-border growth with Argentina and with Chile.

"We are bringing telecoms to Mercosur [the free market zone in Latin America]."

The Brazilian federal government hopes the sale of the rest of the industry will start next year. It sent legislation to Congress last week setting out its plans which include the break up of Telebrás, the public holding company, into four regional units, and the sale of subsidiaries such as Embratel, the long-distance operator.

Mr Sérgio Motta, the communications minister, said each of the four regional companies – São Paulo, south, north-east and north – would be bigger than any other Latin American telecoms company.

He said he hoped Congress would approve the legislation by the end of the first quarter of next year and that the privatisation would be completed by the end of 1998. Telesp, the São Paulo company, and Embratel would be sold in 1997.

Analysts said this was an extremely tight timetable for such a complex privatisation. They also predicted the bill could be delayed in Congress because it coincided with voting on a constitutional amendment to allow the president to stand for re-election.

Many of the big international telecoms companies are preparing to invest in the Brazilian market and about 20 consortia have been formed to bid for B-band cellular services, which are to be sold separately.

India bows to foreign critics of non-voting shares plan

By Tony Tassell in Bombay

The Indian government has dropped a controversial proposal to allow companies to issue non-voting shares following criticism by foreign institutional investors.

Mr P. Chidambaram, the finance minister, has withdrawn an amendment to India's Companies Act which would have allowed companies to issue up to 25 per cent of their equity capital in non-voting shares.

The proposal, announced in July's national budget, was widely seen as a sop to India's family-run businesses to offset the effects of takeover regulations to be introduced early next year. These are expected to see family-run companies become more vulnerable to hostile bids.

The proposal would have allowed such companies, many of which in turn control corporate empires through complex webs of minority shareholdings, to raise funds through equity issues without diluting family control.

However, foreign investors were concerned about an emasculation of minority shareholders' rights, an increase in the cost of capital following higher dividend payments on such stock to compensate for lack of voting rights, and a reduction in the accountability of management.

Mr Gul Teckchandani, the chief investment officer with Sun Foreign & Colonial Asset Management, said the Indian government's move to drop the non-voting shares proposal showed it was responsive to market concerns.

Mr Teckchandani said there were few plans to actually issue non-voting shares because of a feared backlash by investors. Analysts said any company that proceeded with such an issue would have been "severely punished" on the stock market.

Mr Vijay Advani, the president and chief executive of Templeton Asset Management (India), said the move was a "welcome step" that would receive a "thumbs-up" from foreign investors. He said non-voting shares were open to abuse from controlling shareholders and the creation of two classes of equity reduced the liquidity in a stock.

Goldman Sachs revenues reach record $6.1bn

By Tracy Corrigan in New York

Goldman Sachs, the largest investment bank partnership on Wall Street, yesterday reported record 1996 revenues, though profits fell just short of the high reached in 1993.

Goldman's strong performance, particularly in the fourth quarter, is likely to fuel expectations that some other US investment banks, most of which have a December year-end, will report record profits when they announce full-year results next month.

Conditions in all the main financial markets have been particularly favourable this year, sparking hectic activity in bond and equity underwriting and mergers and acquisitions.

Goldman said bonuses announced to staff last week would not break records but added: "We were generous and I think our people are happy." However, its strong performance means its 200 partners will reap multi-million dollar rewards in years to come from the profits added to the firm's coffers.

Goldman's pre-tax profits for the fourth quarter, which ended on November 29, were 68 per cent higher than for the same period last year, at $743m. For the full year, Goldman reported pre-tax profits of $2.61bn, up from $1.37bn last year, and just $50m short of the 1993 record. Revenues for the year reached a record $6.14bn, up from $4.48bn last year and from $5.76bn in 1993. Expenses also rose, however, to $3.5bn this year, up from $3.1bn in 1995.

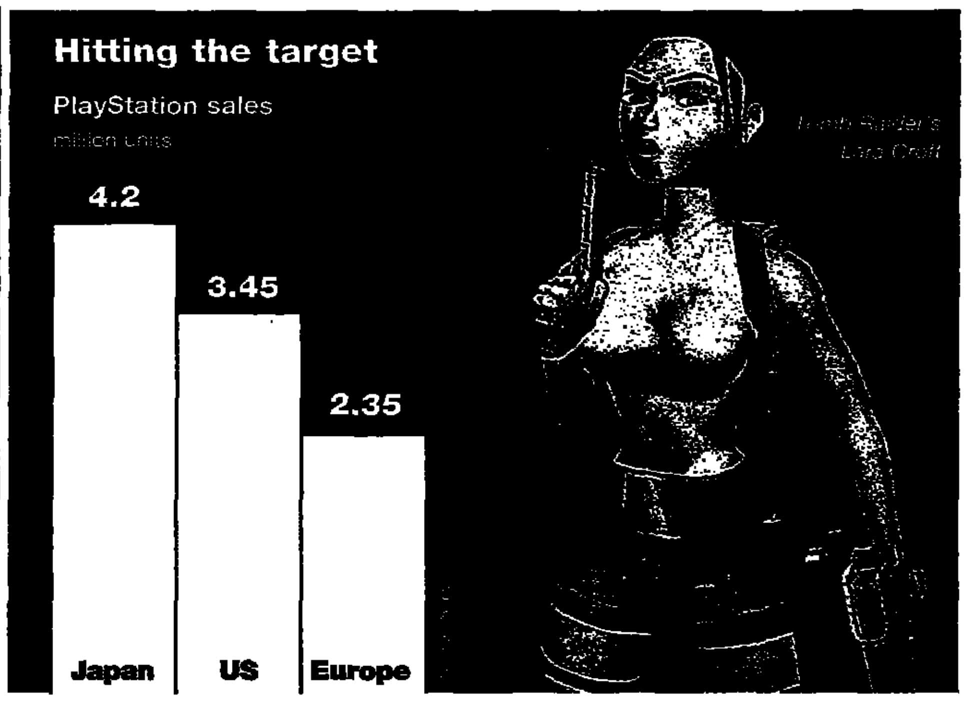
Mr John Thain, chief financial officer, said: "Fourth-quarter performance was very strong with all divisions contributing across the board to profitable results for the quarter and for the year."

Goldman does not report earnings by market sector but said its earnings were "more diverse" than in previous years. It has historically been viewed primarily as an equities specialist but has recently built up its businesses in bonds, emerging markets and fund management.

In the US, Goldman looks set to be the biggest underwriter of initial public offerings and domestic equities, according to Securities Data, helped by large transactions such as Deutsche Telekom's IPO. It said virtually every division of the firm had had either its best or second best year ever.

Goldman ended the year with about $5.25bn of capital, up from $4.9bn last year, and 9,000 staff, up from 8,200 a year ago.

Diversification, Page 25



Lara's a winner for PlayStation

By Paul Taylor

Lara Croft may not look or dress much like Santa Claus, but the acrobatic gun-toting heroine of Tomb Raider is helping turn Sony's PlayStation games console into one of the hottest electronics products this Christmas.

Sony's North American computer entertainment unit revealed yesterday that sales of hardware and software for the video games machine have already topped $1bn this year.

That includes sales of the consoles, Sony software and other licensed software from companies such as Electronic Arts and UK-based Eidos which created Tomb Raider.

Worldwide sales figures will be considerably larger. Sony Computer Entertainment said this month that more than 10m PlayStation units had been sold so far, including 4.2m in Japan, 3.45m in the US and 2.35m in Europe.

In the US, where the CD-based machine sells for $199, Mr Kaz Hirai, an executive at Sony Computer, said: "Revenues have far exceeded our initial expectations. We entered this market one year ago and now we are the undisputed worldwide leader."

Sales in Britain, where the machine costs £199 ($330) and games an average £40 each, are also strong, helped by the delay in the arrival of the rival Nintendo 64 system, available in Japan and North America but not to be released in Europe until Easter.

Apart from Tomb Raider, other top-selling titles include Formula One from Psyignosis and Sony's own Crash Bandicoot.

For sheer excitement, however, Tomb Raider – in which Lara is hired to recover pieces of an ancient artefact, dodging wolves, flesh-eating dinosaurs and booby traps in the process – is hard to beat.

Barry Riley

Rewards for straying beyond the fringe

Global bond managers have enjoyed a much better year than their clients. By that I mean it has been fairly easy to outperform the benchmarks, but the latter have been sluggish, with the J.P. Morgan Global Government Bond Index, for example, showing a total return (in dollars) of only 4 per cent.

It has been a poor year for core markets: US Treasuries, German bunds and Japanese government bonds together have weightings of over 80 per cent in the global benchmarks. Treasuries have returned only 3 per cent while the bunds and JGBs have been slightly negative in dollar terms, although modestly positive in local currency. Pity, in particular, the unhedged British investor in Swiss franc bonds.

Global bond fund managers have had the opposite problem this year to their counterparts managing equities. The latter should have been overweight in US stocks and they got it badly wrong. The bond managers needed to *underweight* Treasuries but *overweight* the dollar, and generally they appear to have got it at least partly right.

End-September data from Frank Russell's fixed income performance universe showed the JPM Index stranded in the fourth quartile after nine months. The median manager was outperforming at that stage by about 130 basis points. The rolling 12-month returns showed outperformance of more like 250.

Global managers have been light of dollar bonds and have spectacularly underweighted JGBs (quite a few had none at all through summer), though they have been close to neutral on the yen. The great feature of 1996, however, has been the opportunity to pick up extra return in peripheral markets – the riskier the better.

Thus dollar returns have ranged from 13 per cent in Spain to 19 per cent in Australia and 28 per cent in Italy. With the dollar up 7.5 per cent against the D-Mark this year, local currency returns have often been slightly higher. And those fund managers who strayed outside the baker's dozen of developed countries represented in the global indices could have picked up over 30 per cent on Brady bonds.

> The great feature of 1996 has been the opportunity to pick up extra return in peripheral markets

In Europe, this outperformance by the periphery has been associated with the political moves towards a single currency. But is it as simple as that? Merrill Lynch's Market Cycles Bulletin points out that the yield spread between Australia and the US has collapsed exactly in line with the spread between Spain and Germany.

The narrowing of spreads is a bull market phenomenon – except that there has scarcely been a bull market this year in the core markets. Nevertheless, short-term interest rate movements have been helpful.

There is a close connection with events in the foreign exchange markets. Earlier in the year, risk-seekers in the currency markets were becoming very aggressive, says Avinash Persaud, currency strategist at J.P. Morgan in London.

Now his Risk Appetite Index is falling and it characteristically swings all the way to negative, which in present conditions would reflect fears that the interest rate climate will become less benign in 1997 if the global economy accelerates.

The risk-seeking drive is a liquidity-driven phenomenon. In global bonds the big markets are constrained by domestic value considerations, such as minimum actuarial requirements for yield, and it is difficult for US Treasury yields to be driven very far below 7 per cent, or bund yields much under 6 per cent.

Excess global demand therefore tends to be concentrated in peripheral markets where risk premiums can be reduced, a convergence which can easily be rationalised by bullish traders. The question then is whether the spreads will eventually snap back savagely to roughly where they were before – as happened with Bradys after the bond market crash and Mexican crisis in 1994 – or whether some genuinely new factor applies, notably the prospective absorption of various weak European currencies into the euro.

A more discriminating attitude to risk is likely to be required in 1997.

Skandia abandons Stadshypotek offer

By Greg McIvor in Stockholm

Skandia, the leading Nordic insurer, yesterday conceded defeat in its quest to merge with Stadshypotek, the Swedish mortgage bank. It said it had withdrawn its offer because of lack of support from the Swedish government, Stadshypotek's biggest shareholder, which favoured a rival bid by Svenska Handelsbanken.

The withdrawal paved the way for Handelsbanken, the country's largest bank, to win full shareholder acceptance for its SKr22.9bn ($3.35bn) bid, Sweden's biggest cash offer.

The announcement prompted the board of Stadshypotek and Sweden's small shareholders' association, which had both backed Skandia's offer, to back Handelsbanken. Skandia's shares rose SKr2.50 to SKr192 and Handelsbanken eased SKr4 to SKr190.

Mr Sven Söderberg, Skandia chairman, said the company had decided from the outset it would not raise its offer, worth SKr21.1bn at yesterday's closing prices. There was "no sense in continuing" following the bid from Handelsbanken.

He said he had no regrets over Skandia's strategy of pre-empting the government's auction of a 34 per cent stake in Stadshypotek – a move which deeply angered Mr Erik Åsbrink, Sweden's finance minister.

Skandia's failure to complete the merger is a blow for Mr Lars-Eric Petersson, its chief executive-designate, who spearheaded the deal. He said the company would seek other opportunities to participate in the restructuring of Scandinavia's financial services market.

A tie-up with Stadshypotek would have allowed Skandia to tap the mortgage bank's substantial capital reserves to fund expansion of its fast-growing international unit-linked assurance operations, AFS.

Skandia had estimated AFS's capital requirement at SKr5bn in the next five years. It insisted that financing of its expansion plans was not a problem and would not require a new share issue.

One London-based insurance analyst said the breakdown was good news for Skandia shareholders. "There are potentially better routes for the company to sort out its capital needs to fund the international expansion," he said.

Separately, the Stockholm Stock Exchange said it would take no action against Handelsbanken over allegations that it had manipulated Skandia's share price.

Handelsbanken was a big net seller of Skandia shares after the merger announcement, prompting Sweden's Financial Supervisory Authority to launch an investigation. The bourse said Handelsbanken had primarily sold the shares on behalf of foreign clients.

Boeing merger dents spirit of St Louis

Whichever way you approach St Louis, Missouri, the most prominent feature of the skyline is likely to be the shimmering steel of the Gateway Arch, a soaring symbol of the city's hopes for the future.

But those hopes have been dented by Boeing's takeover of McDonnell Douglas: for Mac, as the company is known locally, is not just headquartered in St Louis, but has been inextricably linked with the city's recent history.

St Louis has been closely associated with aviation since ballooning took off there in the early 19th century. An aeronautical competition was the highlight of the St Louis World's Fair of 1904, the event that inspired the Judy Garland film *Meet Me in St Louis*.

Ashley Ashwood

Symbol of success: St Louis, with its famous Gateway Arch

In 1927, Charles Lindbergh put the city on the international aviation map with his historic non-stop flight from New York to Paris in an aircraft called Spirit of St Louis. Although Lindbergh was not a native of St Louis, his mission was financed by local businessmen who were aviation enthusiasts.

McDonnell Douglas' links with the city began in 1939 when Mr James McDonnell arrived from Arkansas to set up a company making aircraft parts.

Mr McDonnell started the business on rented space with a handful of employees. But the second world war brought his fledgling company plenty of work, and soon the McDonnell Aircraft Corporation expanded into the design and manufacture of jet fighters.

The company's biggest success came in 1958 when it produced the first F-4 Phantom II, a phenomenally successful aircraft that became a mainstay of the US military effort in Vietnam. McDonnell eventually sold more than 5,000 of them, making the company one of the giants of the world aerospace industry.

The Douglas part of the operation was added in 1967 when McDonnell acquired the California-based Douglas Aircraft Corporation. But the marriage did not work out as planned: the civilian side was left behind by Boeing (and later, Europe's Airbus Industrie), while the military side was hit by the loss of some important contracts and the end of the Cold War.

Drastic cost-cutting set in as McDonnell Douglas' fortunes declined, hitting St Louis hard: in 1990 the military division shed 16,000 workers in the city. More bad news came last month when the US Defense Department dropped McDonnell Douglas from the competition to build the Joint Strike Fighter (JSF), described by the company as a "must-win" contract.

In spite of the setbacks, McDonnell Douglas remains St Louis' biggest private sector employer, with 23,000 workers. And the city yesterday was ready to look on the bright side of the takeover.

Although McDonnell Douglas would lose its independence, city officials said, St Louis would become the headquarters of the combined company's defence systems division; no job losses were threatened; and the merger with Boeing meant St Louis would be back in the running to win the JSF contract.

Some workers at the McDonnell Douglas plant thought it sad that the McDonnell Douglas name would go. "It's the same way Douglas felt when we bought them, way back when," said an engineer. "Now we will all have on Boeing badges."

But perhaps the biggest setback was the loss of the headquarters of a Fortune 500 company. The St Louis Post-Dispatch called it "a terrific blow to civic pride", saying it would accelerate the decline of St Louis as a headquarters city.

Until recently, St Louis had boasted of the number of Fortune 500 companies based there. It still has Anheuser-Busch, Trans World Airlines and Monsanto. But General Dynamics and Southwestern Bell have moved out, and Boatmen's Bancshares is being bought by NationsBank of Charlotte, North Carolina.

Still, Mr Richard Fleming, president and chief executive of the St Louis Regional Commerce and Growth Association, says the spirit of St Louis is far from dead. The economy is strong: the city has added 43,900 net new jobs since January 1995, and unemployment is only 3.7 per cent, its lowest since the current data series began 23 years ago.

"The bottom line is, would we have preferred to be Seattle in this case? The answer is 'yes'," he says. "But we still have 21 Fortune 1000 based in the St Louis area, which is an extraordinary level for a community of its size."

Richard Tomkins

Frontier shares fall on revenue warning

By Richard Waters in New York

Frontier, until recently one of the fastest-growing telephone companies in the US, yesterday became the latest casualty of the upheaval in the country's telecommunications markets as it warned of a shortfall in its fourth-quarter earnings.

The news sent shares in the company into a tailspin and dented the stocks of some other long-distance telephone carriers.

Frontier, the fifth-biggest US long-distance carrier, warned that its long-distance revenues for the final three months of this year would be "in the range of $400m", well short of the $496m of the preceding three months.

The warning reflects the intense competition that has broken out for long-distance customers, as well as the length of time and expense it takes to launch services and win new customers as US telephone markets are opened up.

Based in Rochester, New York, Frontier's own local markets have already been deregulated, putting it further ahead than most other parts of the US in facing competition on a broad front.

News of the revenue slump sent Frontier's stock down by $6¾, or 25 per cent, in early trading, to $19⅞. Shares in other small, fast-growing telecoms companies, such as LCI and Teleport, also slipped.

Much of the revenue decline reflects the loss of business from Excel, a telephone reseller which bought capacity on Frontier's network wholesale and sold it on at discounted rates to its own customers.

Rather than lifting its profit margins as it sheds relatively unprofitable wholesale business, though, the company warned that its margins would fall as the volume of calls it can spread its fixed costs across declines.

INTERNATIONAL NEWS DIGEST

Baloise pulls out of three markets

Baloise, the Swiss insurer often seen as a takeover target, is taking a SFr150m (US$113m) write-down on its US insurance business and withdrawing from the insurance markets of Italy, France and Spain, where its market share is below 1 per cent. The company said its position in the US market was "completely insignificant" and it no longer regarded it as strategically important.

The company will also omit its dividend this year, but shareholders will be compensated by a one-off capital repayment of SFr60 a share. Last year the company paid a dividend of SFr47, which fell to SFr31 after tax. It estimated the impact of the capital repayment would be a reduction of about 3 per cent of its SFr3.1bn equity capital.

Baloise is one of the best capitalised insurance companies in Switzerland. However, its return on equity is among the lowest and even if it meets its five-year target of doubling net profits to SFr240m by 1998, it will still only be earning 8 per cent on its equity.

William Hall, Zurich

France Télécom eyes Spain

France Télécom yesterday became the first foreign operator to signal its willingness to enter Spain's basic telephony market and compete with Telefónica when it loses its monopoly next year. The French group signed an agreement with Banco Central Hispano (BCH), the domestic banking group, to form a consortium that will bid for Retevisión, Spain's state-owned signals transmitter, which the government launched as the second domestic telecoms operator earlier this month.

Deutsche Telekom and Sprint, the US operator, who partner France Télécom in the Global One alliance, are also likely to be associated with the venture. Spanish groups joining BCH in the consortium are expected to include the utilities Endesa and Unión Fenosa, a number of construction companies and local savings banks.

The government plans to invite tenders for 60 per cent of Retevisión at the begining of next year and the consortium led by France Télécom and BCH is likely to be the only one entering a bid.

Tom Burns, Madrid

Liberalisation challenge, Page 24

Kuok unit plans closures

Kerry Securities, part of the empire controlled by Malaysian tycoon Mr Robert Kuok, is to close offices and axe staff as part of a about-turn in strategy to focus on serving wealthy individuals rather than institutions. Some 40 staff will go, with the possibility of more following. It also plans to shut down a number of overseas representative offices, including the related overseas affiliate in London. The future of the New York affiliate is under review, as are the group's fund management activities. The moves follow a shake-up in the brokerage industry in Hong Kong, which has seen big staff turnover and a restructuring of the sector.

Louise Lucas, Hong Kong

Kimberly-Clark sells mill

Alliance Forest Products, an aggressive eastern Canada newsprint producer, is buying Kimberly-Clark's Coosa Pines pulp and newsprint mill in Alabama for US$600m cash, effective in the first quarter of 1997. Alliance will expand its existing US customer base and its annual sales will reach about US$700m.

Robert Gibbens, Montreal

News Corp turns down French move

By Raymond Snoddy

Mr Rupert Murdoch's News Corporation has turned down an opportunity to join a consortium in France about to launch a digital satellite service to compete with Canal Plus, the established subscription television service.

News Corp, it is believed, was in talks to take a one-third stake in the project for more than $200m. Investors in the TPS consortium include TF1, the French television channel, France Télécom and the utilities group Lyonnaise des Eaux.

Mr Murdoch, who has joined partnerships to launch digital satellite television services in South America, Germany and Japan, looked carefully at the project. If he had gone ahead, the proposal would have been put as a possible investment to British Sky Broadcasting, the UK satellite venture in which News Corp holds 40 per cent.

News Corp decided earlier this month not to join the venture. Mr Murdoch believed Canal Plus could not be dislodged from its leading position. Canal Plus launched its digital satellite service in April and has more than 100,000 subscribers. It also has many movie rights as well as the exclusive pay-per-view rights to the French football league.

A third consortium, the AB group of independent television production companies, is also planning to launch a digital satellite service in France.

BSkyB will concentrate its continental European operations in Germany where it is completing a deal to take 49 per cent of DF-1, the digital satellite television service launched by the Kirch Group in July.

Posco willing to help rescue Sammi Steel

By John Burton in Seoul

Pohang Iron and Steel (Posco), *South Korea's largest steel maker*, yesterday said it may buy half the operations of Sammi Steel, the country's troubled leading speciality steel producer.

Sammi is offering Posco its special steel bar and seamless steel pipe businesses, which accounted for half its Won1,000bn ($1.2bn) sales last year, to reduce its heavy debt burden.

Sammi's share price, which has fallen recently because of speculation about its financial insolvency, rose 7.9 per cent in Seoul yesterday, from Won3,170 to Won3,420. *Posco shares fell Won900 to* Won35,700.

State-run Posco said it was willing to help rescue Sammi through the acquisition because the speciality steel sector was an important supplier to key industries, including car companies. If it went bankrupt, the national economy would suffer.

Sammi is Korea's largest speciality steel producer, with total production capacity of 1.5m tonnes.

Posco noted the Sammi divisions offered for sale had good profit prospects. The purchase price and other terms of the deal will be decided later.

Posco would not only take over one of Sammi's main plants in Changwon, South Korea, but also its two North American subsidiaries, Sammi Altas in Canada and Sammi Altech in the US.

Sammi would retain control of its cold-rolled stainless steel sheet operations, its main business.

Although Sammi sales rose 32 per cent last year on the back of strong demand for stainless steel products, it reported a net loss of Won39bn because of debt payments.

Sammi invested heavily in the early 1990s in purchasing the North American plants and importing an electric furnace facility.

However, it suffered a financial squeeze because of sluggish demand until 1995, with its debts rising to Won1,000bn.

Posco's involvement amounts to a state rescue of Sammi. The South Korean finance ministry, which is a main shareholder of Posco, has intervened before when it looked as if Sammi was collapsing.

The finance ministry arranged an emergency loan package for Sammi in 1992, when it seemed to be headed for bankruptcy after creditors initially refused to lend it more money.

Besides the industrial strategic importance of Sammi, its bankruptcy now would further undermine a weak Seoul stock market. It could also damage the image of Korean corporate borrowers in overseas markets.

Telefónica takes on liberalisation challenge

Spanish telecoms group must prepare for opening up of domestic market, writes Alan Cane

Telefónica, Spain's national telephone company, bears out analysts' arguments that the best value in quoted telecommunications companies is currently to be found around the Mediterranean.

The final stage in the privatisation of the company is expected next February, when the government's remaining 20 per cent holding will be on offer, with the smaller, domestic investor the chief target.

Its performance in the past few years virtually guarantees the success of the offering. The group's overall strategy, however, is under the microscope after the appointment this year of a new, young chief executive without telecoms experience, Mr Juan Villalonga.

His most controversial move to date has been the decision to set up what some see as a risky digital television joint venture with the German Kirch group, involving an investment of more than $1bn.

The group's financials, however, are robust, underpinning its spectacular share price improvement. From January to September 1996, revenues grew to $11.48bn, an improvement of 13.3 per cent over the previous year, helped by a rise in cell-phone revenues and falling domestic interest rates. Income before tax grew 24.4 per cent to $935.2m. Net income per share, at $1, rose 19.8 per cent.

The performance of the group's shares has been equally impressive. Closing at Pta2,935 yesterday, the stock has risen about 80 per cent over its value at the beginning of the year. Analysts estimate a price/earnings ratio of 14 for 1997, compared with 10.94 for British Telecom, 11.1 for KPN of the Netherlands, and 13 for Portugal Telecom.

The results are the signs of a transformation at the company which has seen the average waiting time for line installation reduced to about three days this year from 100 in 1993, and the average time for a line to be repaired fall from 18 hours to 12 hours over the same period.

The group still enjoys monopoly profits and has been using them to make ample provisions for redundancies – 11,000 job cuts are planned by 2000 – and for substantial expenditure on marketing. International charges have been reduced by 25 per cent in the first *stages of "rebalancing" long* distance and local call charges.

Much of the credit for these reforms must go to Mr Villalonga's predecessor, Mr Cándido Velázquez, who was replaced after the change of government in Spain earlier this year.

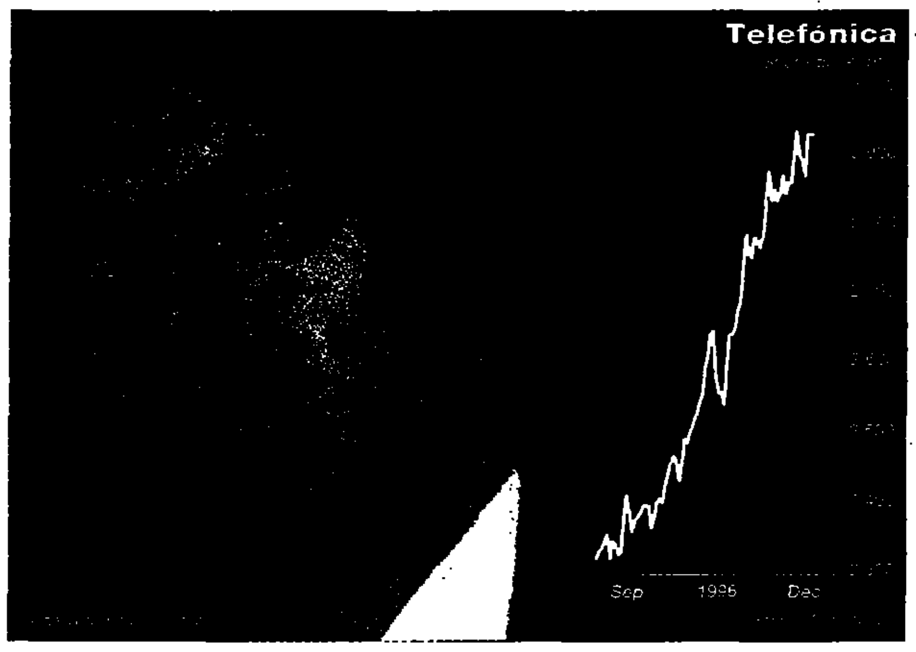
However, Mr Villalonga, appointed chairman and chief executive in June, is not an obvious candidate for the role. Aged 43, and with no direct experience of telecoms, he came to Telefónica from Bankers Trust, where he was head of operations in Spain and Portugal.

He is also a close friend of Mr José María Aznar, the Spanish prime minister, whose government has now agreed to liberalise the country's telecoms market on January 1 1998, in line with the rest of the European Union. Mr Villalonga's task is to define and strengthen Telefónica's position in a changing telecoms environment. "We will become a globally competitive operator with a leading position in the Spanish-speaking world," he says.

The first challenge will be to sustain growth and profitability in the domestic market in the face of increasing competition after 1998.

Mr Villalonga accepts the group will lose market share in the long distance and international markets, where its rates are expensive by European standards. He believes, however, that it will find less competition in the local market, where it owns the local loop.

Call charges will undoubtedly fall as a consequence of competition and regulation, but an increase in volume will compensate, Mr Villalonga says. Spain, with only about 38 telephone lines per head of population compared with 45 in the UK, can clearly sustain reasonable growth.



Mr Douglas Wight, telecoms analyst with Salomon Brothers in London, concludes in a recent research note: "We believe investors can look forward to annual earnings growth over at least the next three years of 15 per cent plus, to annual operating cash flow growth in excess of 5 per cent, and to substantial free cash flow generation."

Much will depend, however, on the group's performance in international markets and in new product areas such as multimedia and digital television.

The group is already dominant in South America through holdings in Peru and Chile, among others, but Mr Villalonga plans to expand in North America and the Pacific Rim, chiefly through alliances. "We want to take minority positions with strong local partners but want a strong role in managing the alliance."

Critics question the logic of abandoning discussions with AT&T and GTE, which could have led to the US companies taking stakes in Telefónica's Latin American operations.

The other arm of Telefónica's international operations is its stake in Unisource, a European alliance of small telecoms operators linked to WorldPartners, an international alliance led by AT&T.

Mr Villalonga denies suggestions that the company's relationship with its Unisource partners is strained or that he is talking to other potential partners.

He notes, however, that "we have to learn to work together", and recognises the importance of the right management at Unisource. "They have to deliver; if they don't deliver, we will change them."

INTERNATIONAL NEWS DIGEST

Sydkraft buys Orebro Energi

The rapid consolidation of Sweden's energy market took another turn yesterday when Sydkraft, Sweden's largest independently-owned power supplier, announced the SKr2.5bn ($337m) acquisition of Orebro Energi, a medium-sized municipal electricity provider.

Sydkraft said the deal would provide a springboard for expansion into central Sweden from its main base in the south of the country. Mr Göran Ahlström, Sydkraft chief executive, said Sydkraft's aim was to have a national presence after deregulation of the Swedish power market in January. The company was one of four domestic energy suppliers which placed bids for Orebro Energi.

Orebro Energi made pre-tax profits last year of SKr160m on sales of around SKr1bn. Sydkraft's pre-tax profits were SKr2.5bn on turnover of SKr12.2bn. Sydkraft's shares rose SKr1.50 to SKr127.50 yesterday. *Greg McIvor, Stockholm*

Santander in Colombia buy

Banco Santander said it has reached an agreement with Colombia's Grupo Bavaria to buy a 55 per cent stake in Bancoquia Commercial Antioqueno for $151m.

Prior to the acquisition, Santander said Banco Commercial Antioqueno would acquire 100 per cent of Invercredito, Colombia's market leader in consumer loans, and sell its stake in the Confinorte investment bank, as well as its shares in other affiliates. After the merger with Invercredito, Banco Commercial Antioqueno would occupy fourth place in Colombia's private banking sector, with assets of $1.68bn and $277m of shareholders' funds, it said. *AFX News, Madrid*

Indosat upbeat on profits

Indonesia's international telecommunications services provider PT Indonesian Satellite Corporation (Indosat) is projecting 1996 net income growth of 7 per cent to 9 per cent over 1995, Indosat's investor relations general manager, Mr Budi Prasetyo, told analysts yesterday.

Mr Prasetyo also said the company projected 1997 growth in net income and earnings per share of 12-14 per cent over 1996. Indosat posted net income of Rp459.43bn ($195m) and earnings per share of Rp443.68 in January-December 1995. In the first nine months of 1996, the company reported a net income of Rp361.6bn, compared with Rp342.9bn in the same period of 1995. *Reuter, Jakarta*

Growth slows at Wolford

Wolford, the Austrian maker of ladies' luxury tights, has seen a slowdown in growth in the first six months of its financial year. The group's net profits rose 9.4 per cent to Sch106.9m ($9.82m), while turnover rose 8.5 per cent to Sch829.3m. In the same period last year turnover rose 28 per cent.

The company, whose shares have been the best performer on the Vienna stock market since they were quoted in February 1995, reported sales 134 per cent higher in the US, 51 per cent higher in the UK, 38 per cent higher in Scandinavia and 22 per cent higher in Italy.

This was offset by lower sales in Germany, Austria and France, which account for roughly two-thirds of Wolford's sales. Branded turnover, which accounts for more than 90 per cent of sales, rose 10 per cent. Staff numbers rose by 195 to 1,525, and the group plans to double its number of Wolford boutiques in the second half of the year by opening another 100 outlets. *William Hall, Zurich*

هكذا من الأصل

هكذا من الأصل

Owens-Illinois expands with Italian acquisition

By John Simkins in Milan

Owens-Illinois, of the US, is set to become Europe's second largest manufacturer of glass containers after buying 76 per cent of shares in Avir, of Italy.

The US glass and plastic bottle maker will also launch a tender offer for the 21 per cent of shares quoted on the Milan stock market. Its Italian subsidiary is buying the other 3 per cent in private hands. The total cost for 100 per cent of the shares is expected to be about $580m, to be financed initially by bank borrowings.

Owens-Illinois said on Monday night it had agreed to buy the 76 per cent of Avir shares from the controlling Maderna and Ricciardi families, including the current chairman, Mr Natale Maderna. Although Mr Franco Todisco, a member of the Maderna family, will become president of Avir, other family members will leave the management.

Avir, based in Milan, has about 50 per cent of the Italian market in glass containers. It has an annual turnover of about L1,100bn ($719m) and had consolidated net profits in the year to the end of June of L105.1bn. Its main customers are producers of wine, beer, spirits and food, and it has 15 plants in Italy. It also has three plants in the Czech Republic, where it is market leader, and two in Spain.

Owens-Illinois, which was advised on the deal by Morgan Stanley, operates in Poland, Hungary, Finland and Estonia, and has a subsidiary, United Glass, in the UK. After buying Avir, its share of the European market will be second only to that of St Gobain of France, its main competitor worldwide.

On a multiple of approximately three times operating cash flow, the $580m purchase price is regarded as valuing Avir fairly, considering that the Italian market has been showing slower growth and that the strengthening lira may affect exports.

The purchase is expected to be completed in the first quarter of next year. Owens-Illinois' international operations will then contribute 40 per cent of the company's total sales, up from 28 per cent last year. Since 1991 it has acquired eight glass container companies serving emerging markets.

HK newspaper to close

By John Ridding in Hong Kong

Sing Tao Holdings, the Hong Kong publishing and media group, yesterday announced it would close its evening daily newspaper, citing falling circulation and advertising revenues.

According to Sing Tao, which also publishes a morning Chinese-language newspaper and an English-language daily, the move will save about HK$50m (US$6.46m) a year. In the year to the end of March, the group recorded a net loss of HK$146.6m, against profits of HK$286m the previous year.

The announcement marks the latest upheaval in the Hong Kong newspaper industry, which is emerging from a price war and which was hit last year by the high cost of newsprint. "It is a sign that management in the industry has become more concerned with efficiency", said Ms Cara Eio, media analyst at Merrill Lynch in Hong Kong.

Earlier this year, the Oriental Press group announced the closure of the English-language Eastern Express. Two Chinese-language dailies closed last year following the launch of a price war in which the Oriental Daily News, the territory's biggest-selling newspaper, cut its price from HK$5 to HK$2.

Prices of the main newspapers have now returned to previous levels and the cost of newsprint is about 40 per cent lower than a year ago.

However, the Sing Tao Evening Post has failed to recover lost ground. A relaunch six months ago stabilised sales at about 20,000 copies, but there has been no increase in advertising revenues. "Accepting the forecast that the business will not improve, the board of directors decided to suspend publication", the company said.

Goldman Sachs puts its money on diversification

Like its feted market strategist Ms Abby Cohen – one of the rare souls on Wall Street who called this year's strong market rally – Goldman Sachs is still feeling bullish.

In 1997, Wall Street's largest partnership plans to increase staffing by up to 10 per cent, with a particular focus on building its Asian operations and developing its asset management business.

In an interview last week, Mr Jon Corzine, Goldman chairman, said the firm wanted "greater reach and scope" throughout its core businesses. "We feel our franchise is stretched" in the US and elsewhere, he added.

Goldman employs 9,000 staff worldwide, fewer than either of the other two leading US investment banks (Morgan Stanley has 11,500 employees; Merrill Lynch, with its brokerage business, substantially more). It cut back more aggressively than most after the mini-crash of 1994.

Goldman's biggest investment will be in developing its fund management business, which has nearly $100bn of assets under management. Mr Corzine said he "will be disappointed if we don't double that in the next two years". In the past year, Goldman has bought CIN Management in the UK and Liberty Investment Management in the US. As well as expanding its institutional business, Goldman also aims "to build a world-class mutual fund business".

The firm will also focus more attention on the developing Asian markets, where it is less well established than in Europe or the US. "Asia's high growth rates should drive a wealth of financial opportunities," believes Mr Corzine, who added that the appointment this year of "one of the most talented people at the firm [Mr John Thornton] to run the Asian business sends a real signal about the value we place on that region".

Prior to 1994, Goldman had said that 75 per cent of its focus in Asia (outside Japan) would be in China, but in retrospect "the pace of development probably didn't justify that," Mr Corzine admitted.

Mr Henry "Hank" Paulson, vice-chairman, said he had recently made a six-day trip to Delhi, Singapore, Beijing, Taipei and Hongkong, which illustrates the scope of the firm's interests in Asia outside Japan. Goldman will continue to operate the "hub and spoke" model which is the rule in Europe and America, where core activities such as research and corporate finance in London and New York feed local offices in continental Europe and Latin America. However, Frankfurt is already a notable exception to this rule, due to the importance of the German economy, and there may be similar instances in Asia, Mr Paulson noted.

Commenting on recent reports that the firm is considering buying a bank in the US, Mr Corzine said that although such an acquisition is "not on the active agenda, we are reviewing the issue and looking for the best ways to maximise operational and capital efficiency". But he pointed out that the firm is already moving into areas traditionally associated with commercial banking business. Mr Corzine cited Goldman's shift into areas such as leveraged finance and junk bonds.

US investment banks have been facing growing competition and margin pressure from European universal banks and US commercial banks such as Chase Manhattan, which under current rules are allowed to make 25 per cent of their revenues from investment banking activities. Goldman's interest is limited to the wholesale banking business, Mr Corzine said.

According to Mr Paulson, Goldman has "really worked to build up some diversity" in its businesses. Next year, the spread will widen further.

Tracy Corrigan

Novartis throws up clash of strategies

Novartis, the drugs company being created by the coming together of Basle-based rivals Ciba and Sandoz, has been presented as a merger of equals.

However, the centralised management put in place by Mr Marc Moret, outgoing chairman of Sandoz, increasingly appears to be winning out against Ciba's more devolved structure.

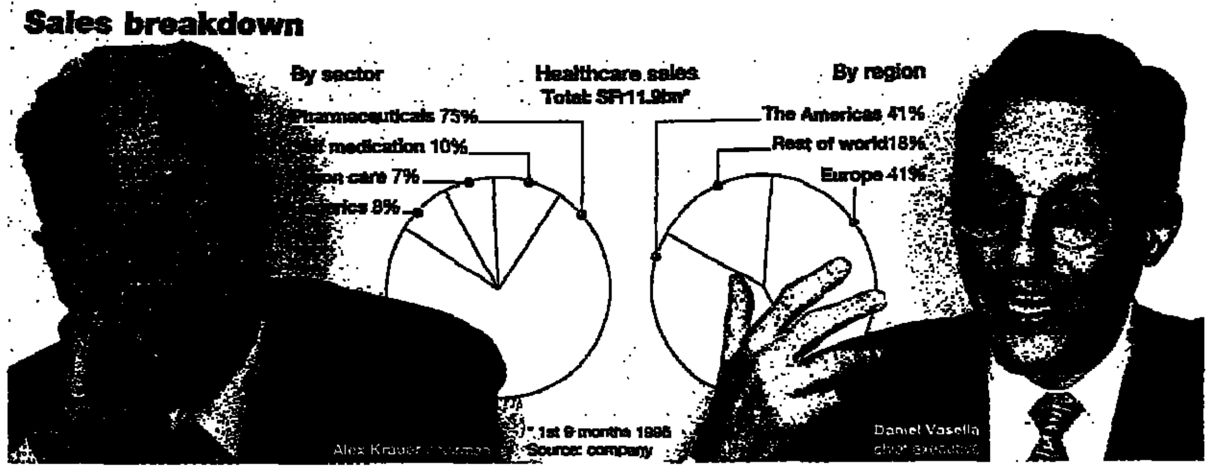
Mr Pierre Douaze, the ex-Ciba man who is now head of pharmaceuticals in the new organisation, and second most senior after after Mr Alex Krauer, chairman, concedes there were flaws in Ciba's approach.

"Sandoz is more tightly managed," he says. "At Ciba there was too much empowerment and not enough control. Our decisions may have been better, but they were slower."

Sandoz has performed better as a result, he says, citing the way the company spun off its chemicals division in 1995.

Splitting chemicals and drugs businesses is standard practice, especially in the UK and US. Sandoz was one of the first continental European companies to take this step, but Ciba's divestment is coming only next year, and as a direct result of the merger.

"We became entangled with speciality chemicals, while Sandoz was willing to take drastic action," says Mr Douaze.



Mr Daniel Vasella, formerly chief executive of Sandoz pharmaceuticals division and now Novartis chief executive, has little sympathy with the way Ciba worked.

"There was too much autonomy and they were loosely organised in their administration," he says. "There were too many paper shufflers who wrote reports no one read. More seriously, while top management's ideas might have been good, they were not always implemented."

With Ciba and Sandoz executives agreeing that the Sandoz way will be the Novartis way, more internal changes are imminent. Sandoz had a project management department whose role was to co-ordinate decisions made by others, while Ciba had project managers allocated to individual projects, with much more decision-making power. The Sandoz approach is being adopted at Novartis.

In the past Ciba's partnerships with biotechnology companies were cautious – it took only a minority stake in California's Chiron, for example. Sandoz was more prepared to take control, as it did with US companies Genetic Therapy and Systemix.

The centralising of power in the hands of Novartis top management, combined with SFr9bn ($6.8bn) net cash in the new company, makes Mr Vasella one of the most powerful men in the global healthcare industry.

"We'll have a cash-generating machine, but we do not want to become a bank," says Mr Vasella in a clear reference to Roche, the other Basle drugs company, which manages its cash pile as a business.

So what will Novartis do with its money? Mr Vasella suggests two possibilities.

The first is over-the-counter (OTC) medicines. Many big drugs companies are looking to OTC to extend the lives of their products after patents expire. Tagamet, for example, made by the UK's SmithKline Beecham, is a low-dose version of a prescription-only ulcer drug whose patent has expired.

Such consumer medicines account for just 10 per cent of Novartis' sales, compared with 75 per cent for its pharmaceuticals division.

The second possibility is to buy in products that are completing their clinical trials. Such drugs may have been invented by biotech companies, which lack a sales and marketing infrastructure, or by Japanese drugs companies, which usually licence their inventions to western drugs companies to sell outside Japan.

In the long term, there may also be divestments beyond the spin-off of Ciba's chemicals arm next year, says Mr Vasella. But he may have to deal first with short-term problems.

The performance of Ciba's drugs have been hit by the expiry of patents on Voltaren, the anti-inflammatory drug that is Ciba's best-selling product, with SFr1bn in sales for the first nine months of 1996.

This can be compensated, says Mr Vasella, by rapid growth in sales of new drugs such as Diovan, a heart drug, and Lescol, which cuts cholesterol levels. This means expanding the sales force.

Mr Vasella has another reason to add staff during a merger in which 12,000 jobs are to be cut. "We have recruited 435 more sales people in the US," he says. "Why? It sends a message that creates confidence and stability in the workforce."

Mr Vasella may need his charm as well as his power to motivate a staff wary of the new orders emanating from the centre.

Daniel Green

COMPANIES AND FINANCE: UK

Smaller engineers vulnerable to approaches

By Tim Burt

A surge in takeover activity among smaller engineering companies was predicted by some of the UK's leading institutional shareholders and investment banks following the launch yesterday of two hostile takeovers in the sector.

Several fund managers suggested that FKI's £195.7m ($321m) bid for Newman Tonks, the architectural hardware company, and Fairey Group's £51.1m ($83.8m) offer for instruments manufacturer Burnfield signalled that acquisitive manufacturing companies were beginning to exploit falling valuations among smaller rivals.

PDFM, one of the largest investors in Newman Tonks, said: "There has been a switch to growth stocks away from the engineers, particularly those hit by the recent rise in sterling."

The fund manager, nevertheless, said it would be rejecting FKI's offer, claiming it did not fully reflect Newman Tonks' growth prospects.

One large investor in Newman Tonks said such companies were starting to look undervalued given the UK's robust 3½ per cent growth forecast for GDP next year.

FKI and Fairey, which both have large overseas manufacturing interests, both cited the UK presence of their target companies as factors behind their offers.

Mr John Dean, of brokers Albert E Sharp, said: "A lot of companies are now waking up to the fact that with falling valuations and promising UK demand, they can stump up a bit of cash and get their targets."

Mr John Llewellyn-Lloyd, chief executive of Close Brothers Corporate Finance, said: "More and more of these companies are looking vulnerable because their are finding it hard to make headway in a low inflation economy, and the strength of sterling is hampering their export efforts."

He also suggested that smaller engineering companies would be swallowed up in the move towards an international supplier base.

Triplex Lloyd, the engineering bidding for castings group William Cook, has cited the need for international scale as a factor behind its £58m hostile offer. Pifco Holdings has also focused on overseas growth in its approach to Kenwood Appliances.

Other investors said that some of the recent bid activity had been prompted by the fear that an incoming Labour government could introduce tighter rules on hostile takeovers.

Fergus Wilde

Bob Beeston: criticises target's 'jam tomorrow' approach

FKI in hostile £198m bid for Newman Tonks

FKI, the acquisitive engineering group, yesterday launched its first hostile takeover by bidding £197.5m for Newman Tonks, Europe's largest architectural hardware company, writes Tim Burt.

FKI announced the bid after persuading M&G, Newman Tonks's largest institutional shareholder, to accept its offer. It is thought to be the first time the fund manager – normally a champion of existing management – has backed a predator at the outset of a bid.

"We normally support management in such cases. But we have become disenchanted with the performance at Newman Tonks, both on share price and dividend," said M&G.

FKI which has spent £280m on acquisitions in the past six months, said it planned to create a £500m hardware division with a market-leading presence in Europe and North America.

Mr Jeff Whalley, FKI chairman, said: "This is a tale of two managements. They have failed their shareholders and we have made a generous offer for a badly underperforming business."

That was dismissed by Newman Tonks, which said that FKI's offer failed to reflect the company's brand value and its prospects.

It also criticised FKI for only offering 134p a share when it first approached the company seeking a recommended offer last week.

The share and cash offer was pitched at 150p a share, with a cash alternative of 140p a share. Newman Tonks shares rose 20½p to 149½p.

"The management of Newman Tonks is promising jam tomorrow and asking shareholders to ignore the earnings and share price performance of the last five years," said Mr Bob Beeston, FKI chief executive.

It also announced a 2-for-13 rights issue, priced at 175p, to raise up to £152.4m to fund the cash alternative.

FKI shares closed off 3½p at 196½p.

Fairey offers £51m for Burnfield

Fairey Group, the specialist engineering company, yesterday announced plans to expand its industrial electronics division by launching a £51.1m hostile bid for Burnfield, the measuring instruments manufacturer, writes Tim Burt.

The company warned, however, that it would only proceed if Burnfield abandoned its proposed £24m acquisition of LDS, a privately owned vibration equipment group.

The 1-for-4 share offer values the target's stock at 145.5p and there is a cash alternative of 135p, underwritten by Charterhouse Bank.

Shares in Burnfield jumped 36p to 136p.

Burnfield, which only announced its proposed LDS acquisition last Friday, rejected the bid and accused Fairey of trying to mislead its shareholders.

"Fairey is offering a knock-down price for Burnfield and its potential," said Mr Brian McGowan, chairman.

He claimed Fairey was trying to deprive investors of the benefits of the recent restructuring at Burnfield and of the LDS acquisition.

Mr John Poulter, Fairey's chief executive, said significant cost savings could be achieved by integrating Burnfield's Beta laser gauging and Malvern particle measurement divisions with its existing US operations in that area. By bringing the companies together he suggested that the enlarged group could capture 25 per cent of the global market.

"We believe this is a generous offer and it's designed to achieve our takeover objective," said Mr Poulter.

Burnfield shareholders would also receive the 2.2p dividend promised by the company when it announced its offer for LDS.

Shares in Fairey eased 1½p to 582p.

PowerGen may bid for Berlin utility

By Frederick Stüdemann in Berlin and Jane Martinson in London

PowerGen, the UK generating company, is considering a bid for control of Bewag, the Berlin utility company to be privatised early next year, in a deal which could cost DM2.5bn ($1.6bn).

The purchase of part or all of the Berlin Senate's 50.8 per cent stake in Bewag would represent PowerGen's first move into the distribution and supply of electricity anywhere in the world. Earlier this year it was blocked by the UK government from bidding for Midlands, a UK regional electricity company.

Mr Peter Hughes, managing director of the group's international operations, stressed yesterday that the deal was at a very early stage as it "was not clear what was being offered".

A crucial issue would be the exact size of the stake the city is selling.

Mr Hughes said yesterday that PowerGen would be "extremely unlikely" to make an offer without management control. So far the Senate has only firmly committed itself to selling 25.8 per cent of Bewag.

PowerGen is one of 28 companies being considered as a possible buyer for Bewag. The Senate, which is to draw up a shortlist, hopes to finalise a sale by the end of February.

Enron and Mission Energy of the US and Southern Electric of the UK are believed to be among foreign companies to have expressed an interest.

In 1995 Bewag had sales of DM4.2bn. BZW is the investment bank behind the proposed sell-off.

PowerGen already owns nearly half of Schkopau, a power station near Leipzig, and 33 per cent of the nearby Mibrag brown coal company.

Bewag services some 2m customers in a densely populated area which gives the added advantage of short transmission distances.

However, PowerGen faces stiff opposition in any bid, not least from RWE, Veba and Viag, the powerful German utilities which have all registered an interest.

Veba and Viag each already hold 10 per cent stakes in Bewag through PreussenElektra and Bayernwerk, their respective subsidiaries.

Eurotherm hits acquisition trail

By Jane Martinson

Eurotherm, the industrial controls manufacturer, said yesterday that it could spend between £50m and £100m ($164m) on acquisitions, as it unveiled annual results at the low end of expectations.

In its first formal statement since this summer's boardroom upheaval, in which the chief executive was first ousted and then reinstated, the group reported pre-tax profits 11 per cent higher at £37.7m in the year to October 31.

The shares dropped 20p to 540p, as profits fell below the £38m-£40m range expected by analysts.

Warnings about the effect of a strong pound also prompted a number of analysts to downgrade forecasts for the current year. ABN Amro Hoare Govett shaved £2m off its forecast to £44m.

Eurotherm spent £300,000 on advisers fees in the period because of the boardroom shenanigans. Mr Claes Hultman, who was reinstated as chief executive in August following a row with Mr Jack Leonard, the group's founder and former chairman, said the problems were "behind us now".

The group also announced yesterday that the two remaining non-executive directors who had supported Mr Leonard would stand down at the February annual meeting.

Sir James Hann, recently appointed chairman in place of Mr Leonard, said the group had "increased its emphasis on acquisitive growth" since a strategic review in September. This review had identified about "half a dozen" acquisition opportunities.

Mr Hultman stressed the group would take its time spending its money: "We have walked away from about 20 opportunities in the past couple of years."

However, he called the group's £34m in net cash at the period end its "biggest single problem".

The current tough trading conditions should make also acquisitions more "affordable", he added.

Distribution arm lifts Securicor

By Motoko Rich

Strong growth in its distribution arm and a one-off gain in the insurance business helped Securicor offset falling full year profits in security, and losses on its communications side.

The group, which has a 40 per cent stake in Cellnet, the mobile telephone operator, yesterday reported a 8 per cent rise in pre-tax profits to £107.4m ($176m) in the year to September 30. This included an interim contribution of £76.6m (£70.6m) from Cellnet, which has a March year-end.

Mr Chris Shirtcliffe, finance director, said the group was "not in any hurry to dispose of the stake" in Cellnet. Securicor offered this to BT – which has a 60 per cent holding – 18 months ago, but the government refused to lift its restriction on BT owning 100 per cent of Cellnet. Analysts thought it was likely Securicor would apply again within the next 12 to 18 months for permission to sell the stake.

Cellnet's results confirmed the trend shown by competitors Vodafone and Orange of a slowdown in the rate of decline in average revenue per customer. Cellnet's average annual revenues dipped 12 per cent to £346.

The distribution division increased pre-tax profit from £13.4m to £21m.

Security division profits dropped to £12m (£15m) as the cash services operation came under pressure from Security Express, its main competitor, which Securicor said had cut prices to "unsustainable" levels.

Mr Roger Wiggs, chief executive, said that since Security Express had been taken over by Securitas of Sweden the prices had "returned to normal and our customers are coming back".

Communications had losses of £4.5m (£2.6m profit) as the move towards consumer subscribers raised the group's bad debt profile – accounting for a £4m charge – and the company incurred start-up costs on the merger of its radio communications division with Intek Diversified Corporation of the US.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Trust	Yr to Sept 30	19.6	(17.6)	6.08♠	(4.15)	5.08	(3.21)	2.2	Mar 5	1.8	3.2	2.5
Aromascan §	6 mths to Oct 31	1.35	(1.71)	1.1L	(0.683L)	4.06L	(2.53L)	-	-	-	-	-
British Thornton	6 mths to Oct 31	3.14	(4.85)	0.184L	(0.593L)	1.1L	(3.7L)	nil	-	nil	-	nil
Chemex Intl	Yr to Sept 30	1.77	(1.64)	0.165	(0.227)	0.41	(0.55)	0.15	Feb 13	0.15	0.15	0.15
Eurotherm	Yr to Oct 31	206.5	(195.4)	37.7	(34.1)	27.8†	(25.1)	5	Feb 28	4.5	9	7.5
Goldsboro' Health	Yr to Sept 29	68.7	(51.1)	4.16♠	(6.16)	7.3	(12.3)	2.97	Feb 28	2.7	4.29	3.9
Hampton Trust	6 mths to Sept 30	18.9	(9.12)	0.408	(1.64L)	0.1	(1.92L)	-	-	0.88	-	0.88
Hay & Robertson	Yr to Sept 30	8.59	(0.673)	0.613	(0.702L)	3.3	(35.3L)	-	-	-	-	-
KS Biomedix Φ	6 mths to Nov 30	0.011	(-)	0.328L	(-)	-	(-)	-	-	-	-	-
Kenick	Yr to Sept 30	119.8	(105.3)	9.11	(12.2)	1.52	(2.39)	0.4	Mar 3	0.35	0.7	0.6
Mondas Φ	6 mths to Oct 31	0.011	(-)	0.105L	(-)	5.4L	(-)	-	-	-	-	-
Securicor	Yr to Sept 30 ★	1,255	(1,031)	107.4	(99.4)	11.6	(10.7)	1.204	April 4	1.016	1.558	1.332
Vaux	Yr to Sept 30	282.5	(258.9)	34.8	(31.8)	20.93	(19.26)	7.04	Feb 6	6.75	10.6	10.2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baring Emerg Eur $	6 mths to Oct 31	124.61	(72.25)	0.021	(0.309)	0.02	(0.25)	-	-	-	-	nil
Close Bros Venture	37 wks to Sept 30	94.9	(-)	0.43	(-)	1.9	(-)	2	Feb 3	-	-	-
Invesco Asia	6 mths to Oct 31 ☆	96.7	(116.7♦)	0.552	(0.35)	0.49	(0.31)	-	-	-	-	0.6
I&S Optimum	6 mths to Nov 30	110.04	(107.65)	1.18	(1.17)	4.09	(4.03)	2.65‡‡	Feb 14	2.15	-	9.4
L&G Recovery	Yr to Oct 31	137.5	(115.6)	1.08	(0.984)	2.94	(2.67)	1.6	Feb 28	2.2	2.35	2.2
Moorgate	6 mths to Nov 30	183.3	(171.5)	0.698	(0.708)	2.47	(2.51)	1.8	Feb 16	1.75	-	4.65

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ★Comparatives restated. $US currency. ☆Comparatives restated and cover 8½ months to October 31 1995. ♦At April 30. ‡‡Second quarterly dividend making 5.3p (4.3p) so far.

T&N steps up quest for German acquisition

By Tim Burt

T&N, the motor components and specialist engineering group, yesterday stepped up its pursuit of Kolbenschmidt, the German pistons manufacturer, by extending its options over 24.99 per cent of the company.

The options, held on T&N's behalf by Commerzbank for the past two years, have been transferred to Metallbank, which has extended them until September 1997.

T&N said the bank was holding them on behalf of an undisclosed group of European investors.

A further 25 per cent stake is expected to be transferred to another institution shortly, following Commerzbank's decision not to renew them at the end of this year.

It will cost T&N DM282.6m ($179.6m) to exercise the options, giving it a 50 per cent stake, if it wins approval for the takeover. Transferring the initial 24.99 per cent option is expected to cost T&N £8m.

The UK group has been forced to "park" the shares with other institutions pending an appeal court hearing in February, which is expected to rule on the German cartel office's decision to reject the proposed takeover.

The cartel office rejected the deal on the grounds that it would transform Kolbenschmidt into a captive customer for Goetze, T&N's German piston rings maker.

Misys to buy Summit Systems

By Paul Taylor

Misys, the largest UK-based software group, is to acquire Summit Systems, a financial derivatives trading software business based in New York.

The deal, part of Misys' strategy to push into the trading software market, is valued at $60.5m.

The vendors are Finance Information et Technologie, of France, which holds a 31.6 per cent stake; Mr Jean de Fontenay, one of the founders of Summit who owns about a third; and an employee group owns the remainder.

Misys is also buying Finance Information et Technologie, and with it the 40 per cent of Quotient Systems, a French privately-owned software distributor, it does not already own.

Quotient sells the Summit software package and a back-office capital markets package called C-Mark which is produced by Midas Kapati International, one of Misys' existing subsidiaries.

The deal comes just five weeks after Misys announced the acquisition of another New York-based software company, Frustrum, for £37.2m.

Frustrum designs computer programmes which allow banks to monitor the profitability and risk of activities, such as foreign exchange trading.

Mr Kevin Lomax, Misys chairman, said: "The acquisition of Summit Systems brings into Misys one of the leading software packages for derivatives trading.

Misys shares closed up 15p at £10.95.

هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS

Signs of housing strength hit Treasuries

GOVERNMENT BONDS

By Lisa Bransten in New York and Richard Lapper in London

Signs of stronger growth in the US housing sector pushed down bond prices in New York and dampened sentiment in most other markets, as the Federal Reserve left interest rates unchanged.

In Europe, prices drifted lower in thin trading with many bigger traders such as hedge funds and bank proprietary desks reported to be on the sidelines.

The US housing figures led to a fall in prices in early trading with the yield on the benchmark 30-year bond rising to its highest level since November 4.

At mid-afternoon in New York, the long bond was off $\frac{13}{32}$ at $97\frac{21}{32}$ to yield 6.657 per cent, while at the short end of the maturity spectrum the two-year note fell $\frac{1}{16}$ to $99\frac{15}{32}$ yielding 5.830 per cent. The March 30-year bond fell by $\frac{7}{16}$ to $112\frac{5}{32}$.

Treasuries started the morning with modest losses and then slipped further after the Commerce Department said that construction was begun on 1.5m homes in November, a 9.2 per cent increase that made up for nearly all of the decline in housing starts seen in September and October.

Economists had expected the figure to have held steady at about 1.39m homes.

The Fed announced that it had concluded its Open Market Committee meeting without changing interest rates. Few on Wall Street had expected any change in monetary policy, but economists are divided about whether the Fed might raise interest rates in the early part of next year. FOMC members did not issue any statement.

Mr John Spinello, a government securities strategist at Merrill Lynch said there was no increase in activity after the Fed's announcement.

He attributed much of yesterday's declines to a desire among portfolio managers to lock in gains, especially given the market's strength in November. "There is some skittishness about lower [bond] prices eating into the returns of managers," he said.

Concerns about new supply set to hit the market today and tomorrow, when the Treasury is to auction two-year and five-year notes, may also have contributed to yesterday's slide.

In Europe, The Italian market started well with early buying in the cash market by domestic institutions.

At Liffe, the London futures market, the March BTP contract reached a high in mid-morning of 129.13.

Analysts said that investors had been encouraged by the fact that the government had overcome some parliamentary opposition to its 1997 budget plans.

Further votes on the package are due to take place this week.

Even so, following the decline in the US, prices drifted lower later in the day with the BTP contract settling at 128.29, down more than half a point.

In the cash market the 10-year yield spread over Germany, which had narrowed to a low of 165 basis points by mid-morning, later widened back out to close 5 basis points wider at 172 basis points.

The Spanish market followed a similar pattern with the March 10-year futures contract settling at 110.91, down 0.70, and the yield spread over Germany widening by 5 basis points to 117.

Among the "peripheral" markets, however, Sweden bucked the trend, with the local market buoyed by a further cut in the repo rate by the Riksbank. Sweden's 10-year yield spread over Germany fell by 8 basis points to 94.

Denmark also outperformed, with its 10-year spread narrowing from 84 to 81 basis points.

France and Germany both lost about a third of a point. The markets found little encouragement from the Bank of France's decision to reduce its intervention rate by 5 basis points to 3.15 per cent and also its five to 10-day repo rate, which usually set the ceiling for market rates, by 15 basis points to 4.60 per cent.

"The markets were putting a negative spin on everything," said Mr Julian Jessop, chief European economist at Nikko Europe.

The poor performance of the US market also dragged down UK government bonds, with the March long gilt contract falling by ¾, to $108\frac{11}{32}$.

Japanese government bonds were also knocked back by the fall in the US, with the yield on the benchmark 10-year JGB No 182 rising in London trading by about one basis point to 2.41 per cent.

Earlier in the day in Tokyo, the yield on the JGB had fallen by 3 basis points, with bonds benefiting from a fall in the local equity market.

Mr Alex Cooper, manager at Tullett & Tokyo, said traders were watching Japanese yields particularly closely following the fall of yields to historic low levels earlier this month.

"A downtrend in the JGB market could be a catalyst for a nasty sell-off in international bond markets," argues Mr Cooper.

CAPITAL MARKETS NEWS DIGEST

APT Satellite cuts IPO price

APT Satellite Holdings's initial public offering has failed to spark enthusiasm among investors, forcing the Beijing-backed satellite operator to reduce its issue price to HK$13.40 from a range of HK$15.31-HK$17.71. The Hong Kong IPO of 9.45m shares was just 86 per cent subscribed, while the international tranche saw a "moderate level of oversubscription", the company said yesterday. This contrasts with the IPO launched in June by AsiaSat, a fellow satellite operator, which was more than 100 times subscribed.

APT had initially hoped to raise some US$250m; it will now pocket around US$180m. During institutional book-building, the maximum price was scaled back by HK$1.47 to HK$17.71. Only 27.9 per cent of the 1.5m shares earmarked for staff were taken up.

APT's experience is in direct contrast to recent new issues, many of which have been heavily subscribed. In spite of boasting a strong China exposure and access to a growing market, analysts believe investors were deterred by a softer telecoms-related issue and questions over the quality of management.

Further concerns centred on APT's claims to satellite slots, which some analysts say are unproven, and a feeling that management could be aggressive in pursuing its strategy. The industry also suffers from a risk element because of failed satellite launches.

Shares in the company are due to start trading in Hong Kong today. The American Depositary Shares, each representing eight shares, will make their debut in New York on Tuesday. The US scrip is priced slightly higher to reflect the higher fees involved for US investors.

Louise Lucas, Hong Kong

India mutual fund postponed

India's first index-linked mutual fund, by Unit Trust of India, has been postponed because of depressed conditions on the Indian stock market.

UTI, the subcontinent's largest mutual fund organisation, had been seeking to raise $50m for the offshore open-ended fund, but commitments from investors fell short of target.

Officials at SBC Warburg, the lead manager, said the issue was now likely to proceed early next year. Mr Euan Macdonald, chairman of SBC Warburg India, said there had been strong interest in the fund but that many investors could not commit until the new year, when new allocations of funds would be made. As a result, the launch had been postponed.

He said weak conditions on the Indian market had been a factor in the postponement. The market's most prominent indicator, the BSE-30 Index, has fallen from a July high of 4,131 to a three-year low on December 3 of 2,713. The fund was to be based on the NSE-50 (Nifty) Index of the National Stock Exchange of India and listed on the London Stock Exchange. The UTI had earlier planned a domestic counterpart to the fund but dropped the proposal.

Tony Tassell, Bombay

Bouygues in comeback with FFr1.5bn offering

INTERNATIONAL BONDS

By Samer Iskandar

Bouygues, the French construction and telecommunications company, is making a comeback to the bond market after an absence of more than 12 years.

The lead managers, Banque Nationale de Paris and Crédit Lyonnais, will today reveal the details of the FFr1.5bn issue, which is expected to be priced tomorrow. Bouygues' last issue was a floating rate note launched in the early 1980s.

The Bouygues offering could well be the highlight of the year-end, with the bond markets now settled in their Christmas lull. A handful of deals was launched yesterday, including an additional FFr500m tranche by Dresdner Finance, which will be fungible with the FFr2bn of existing 12-year bonds. The issue was motivated by a squeeze on the existing bonds, with syndicate members reporting demand for the paper, after having sold their allotment.

"Adding this tranche gives us more leeway to make two-way prices", said BNP, the bookrunner. The new tranche was offered to investors with a yield spread of 17 basis points over OATs – the level at which existing bonds were trading on the secondary market and one basis point tighter than the initial tranche.

Elsewhere, the International Finance Corporation launched its second issue of bonds denominated in South African rand. Hambros Bank, the lead manager, said the deal was motivated by the success of a transaction earlier this month by the World Bank.

With more than R1bn of eurobond redemptions planned in January 1997, Hambros said "the payment date of this issue accommodates reinvestment demand out of the maturing issues".

A syndicate official pointed out that the currency's weakness was partly responsible for the sustained demand. Since the beginning of the year, the dollar has appreciated by almost 30 per cent against the rand. As a result, bankers expect that a majority of bondholders will not want to realise their losses, preferring to reinvest in new issues.

Back in Europe, Crédit Local de France tapped the Ecu sector with a retail-targeted Ecu100m deal.

Banque Internationale à Luxembourg, the lead manager, said the choice of the currency "made more sense than French francs", a sector in which Crédit Local has issued two bonds in recent weeks. It pointed out that demand was relatively strong, because private investors were attracted by the absolute level of the coupon, which is slightly higher than those available on bonds denominated in French francs and D-Marks.

● Standard & Poor's, the US credit rating agency, yesterday upgraded Finland's foreign-currency debt to AA from AA-. The agency said its decision – which brings the rating in line with Moody's grade of Aa2 – "reflects the government's progress in reducing its fiscal deficit, thereby slowing the growth of the government debt burden".

Finnish officials welcomed the decision, saying the higher grade would reduce the cost of servicing the country's debt by about FM100m-FM130m over the next few years.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
SWISS FRANCS							
Sigma Finance(a)	100	3.25	102.20	Nov 2001	2.00	-	SBC Warburg
FRENCH FRANCS							
Dresdner Finance(b)	500	6.25	101.258R	Nov 2008	0.35R	+17(6¾%Oct08)	Banque Nationale de Paris
ECU							
Crédit Local de France(s)	100	5.75	101.55	Dec 2003	1.875	-	BIL
GREEK DRACHMAS							
EBRD‡	40bn	(c)	100.10R	Dec 2001	0.20R	-	Citibank/Nat'l Bk of Greece

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with SFr200m. Plus 41 days accrued. b) Fungible with FFr2bn. Plus 69 days accrued. c) 1-mth Athibor -65bp. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.8900	-1.080	7.49	7.36	7.18
Austria		5.875	07/06	99.3700	-0.210	5.96	5.85	5.99
Belgium		7.000	05/06	107.0000	-0.250	6.00	5.88	6.05
Canada *		7.000	12/06	102.2000	-1.000	6.69	6.32	6.20
Denmark		8.000	03/06	108.7200	+0.020	6.70	6.67	6.82
France	BTAN	5.500	10/01	103.3578	+0.040	4.71	4.67	4.84
	OAT	6.500	10/06	104.7400	-0.380	5.86	5.74	5.88
Germany Bund		6.250	04/06	102.3100	-0.390	5.92	5.77	5.91
Ireland		8.000	08/06	108.2800	-0.450	6.79	6.73	6.86
Italy		9.500	02/06	113.4400	-0.170	7.44†	7.44	7.82
Japan	No 143	6.300	09/01	121.6810	+0.120	1.39	1.42	1.48
	No 182	3.000	09/05	104.3769	+0.260	2.40	2.43	2.50
Netherlands		8.500	06/06	116.8400	-0.320	5.84	5.76	5.83
Portugal		9.500	02/06	116.3200	-0.960	7.02	6.96	7.37
Spain		8.800	04/06	111.4100	-0.710	7.07	6.96	7.53
Sweden		8.000	08/07	108.0501	+0.310	6.90	6.79	7.27
UK Gilts		8.000	12/00	102-24	-2/32	7.19	7.06	7.15
		7.500	12/06	98-28	-8/32	7.66	7.49	7.61
		9.000	10/08	109-18	-13/32	7.75	7.56	7.73
US Treasury *		6.500	10/06	100-14	-23/32	6.44	6.21	6.26
		6.500	11/26	97-21	-34/32	6.68	6.48	6.58
ECU (French Govt)		7.000	04/06	105.3700	-0.400	6.22	6.13	6.27

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.86
Prime rate	8¼	Two month	-	Three year	6.00
Broker loan rate	7	Three month	4.98	Five year	6.19
Fed.funds	5$\frac{5}{16}$	Six month	5.28	10-year	6.45
Fed.funds at intervention	-	One year	5.53	30-year	6.69

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	126.26	126.34	-0.14	126.48	126.08	89,660	118,215
Jun	127.08	127.08	-0.14	127.10	127.08	16	9,233
Sep	125.08	125.08	-0.14	125.08	125.08	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
126	2.50	-	2.91	0.02	0.27	0.45
127	1.55	-	2.15	0.07	0.45	0.68
128	0.72	1.25	1.51	0.24	0.77	1.03
129	0.20	0.74	0.99	0.72	1.26	1.50
130	0.04	0.37	0.59	1.56	1.89	2.09

Est. vol. total, Calls 27,025 Puts 12,451. Previous day's open int., Calls 181,886 Puts 150,618.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.95	99.63	-0.37	100.17	99.72	101611	220210
Jun	-	98.94	-0.37	-	-	0	182

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	Feb	Mar	Jun	PUTS Jan	Feb	Mar	Jun
9950	0.48	0.93	1.18	1.24	0.15	0.60	0.85	1.80
10000	0.17	0.64	0.91	1.03	0.34	0.81	1.08	2.09
10050	0.04	0.43	0.67	0.84	0.71	1.10	1.34	2.40

Est. vol. total, Calls 17241 Puts 14848. Previous day's open int., Calls 198982 Puts 178952

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.65	128.29	-0.64	129.13	128.17	39829	87426
Jun	-	127.82	-0.65	-	-	0	1320

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	Jun	PUTS Mar	Jun
12800	2.00	2.69	1.71	2.87
12850	1.74	2.44	1.95	3.12
12900	1.51	2.22	2.22	3.40

Est. vol. total, Calls 2318 Puts 3113. Previous day's open int., Calls 107492 Puts 71573

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	112.18	-	-	-	-	10,118
Mar	111.50	110.92	-0.70	111.63	110.80	71,819	76,481

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	109-20	109-15	-0-11	109-20	109-15	632	4734
Mar	108-29	108-22	-0-12	109-06	108-20	20450	134281

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	Feb	Mar	Jun	PUTS Jan	Feb	Mar	Jun
108	0-53	1-35	1-57	2-18	0-09	0-55	1-13	2-16
109	0-15	0-62	1-22	1-53	0-35	1-18	1-42	2-53
110	0-03	0-38	0-58	1-28	1-23	1-58	2-14	3-28

Est. vol. total, Calls 731 Puts 170. Previous day's open int., Calls 38724 Puts 27745

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	95.98	+0.9	-	-	-	2,344
Mar	94.90	95.00	-0.18	95.18	94.86	487	5,073

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	113-01	112-13	-0-22	113-06	112-08	10,619	46,986
Mar	112-24	112-01	-0-23	112-26	111-28	215,919	468,898
Jun	112-05	111-16	-0-24	112-06	111-14	855	15,224

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	125.65			125.89	125.50	2167	n/a
Jun	124.27			124.28	124.18	370	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Dec 17	Day's change %	Mon Dec 16	Accrued interest	xd adj. ytd		Low coupon yield Dec 17	Dec 16	Yr. ago	Medium coupon yield Dec 17	Dec 16	Yr. ago	High coupon yield Dec 17	Dec 16	Yr. ago
1 Up to 5 years (21)	120.76	-0.09	120.86	2.37	9.44	5 yrs	7.32	7.26	6.96	7.38	7.33	6.98	7.42	7.38	7.04
2 5-15 years (19)	147.74	-0.32	148.22	2.10	11.88	15 yrs	7.82	7.76	7.72	7.80	7.75	7.76	7.77	7.69	7.87
3 Over 15 years (7)	167.00	-0.48	167.80	3.44	11.85	20 yrs	7.86	7.82	7.80	7.84	7.79	7.83	7.79	7.70	7.90
4 Irredeemables (6)	191.86	-0.13	192.12	1.91	13.47	Irred.†	7.87	7.86	7.88						
5 All stocks (53)	142.99	-0.26	143.37	2.49	10.97										

Index-linked							Inflation 5% Dec 17	Dec 16	Yr. ago	Inflation 10% Dec 17	Dec 16	Yr. ago
6 Up to 5 years (2)	202.77	-0.13	203.04	1.25	5.28	Up to 5 yrs	3.21	3.17	2.56	2.49	2.45	1.33
7 Over 5 years (10)	194.07	-0.47	194.98	1.62	4.71	Over 5 yrs	3.59	3.55	3.52	3.37	3.33	3.31
8 All stocks (12)	193.93	-0.43	194.77	1.57	4.69							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 17	Dec 16	Dec 13	Dec 12	Dec 11	Yr ago	High*	Low*
Govt. Secs. (UK)	94.06	94.04	93.71	93.73	94.08	95.53	96.34	91.59
Fixed Interest	116.27	116.30	115.94	116.53	116.41	114.31	117.82	110.74

Gilt Edged Activity Indices

	Dec 16	Dec 13	Dec 12	Dec 11	Dec 10
Gilt Edged bargains	73.1	84.5	71.6	78.7	83.0
5-day average	78.2	82.1	83.9	89.2	92.0

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
[illegible]						

Other Fixed Interest

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
[illegible]						

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rates are calculated by HSBC Greenwell from Bank of England closing prices.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 17

	Issued	Bid	Offer	Chg.	Yield
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

Dollar dips on strong US housing starts data

MARKETS REPORT

By Simon Kuper

The dollar lost nearly a pfennig against the D-Mark yesterday, after robust US housing starts data caused a sell-off in US bonds and persuaded traders that the Federal Reserve might raise interest rates soon to slow the American economy.

The D-Mark closed 0.9 pfennigs higher against the dollar in London yesterday at DM1.545.

The German currency was also buoyed by Mr Otmar Issing, Bundesbank chief economist, who told the Financial Times that the stability pact for European monetary union must be implemented strictly. That would stop Emu member states from running loose fiscal policies, and would thus help make the future single European currency a hard one. Mr Kit Juckes, currency strategist at NatWest Markets in London, said Mr Issing's comments showed the Bundesbank was more hawkish than the German government in seeking strict conditions for Emu.

Sterling rose against both the dollar and the D-Mark, buoyed by continued belief that the UK would raise interest rates soon but that at the same time inflation was under control. Japanese investors continued buying the pound. It rose 1.1 cents against the dollar to $1.673 and 0.3 pfennigs against the D-Mark to DM2.585.

However these changes came amid thin trading as the quiet fortnight on the currency markets continued. Mr Mark Geddes, analyst at 4Cast, said: "We're into pre-Christmas trading at the moment." Traders were also awaiting the outcome of the US Federal Open Markets Committee meeting after the London close. The FOMC left interest rates unchanged.

Both France and Sweden cut key rates. The Bank of France cut its intervention rate by 5 basis points to 3.15 per cent and its 5-to-10 day lending rate by 15 basis points to 4.60 per cent. But the French franc barely softened against the D-Mark, and rose against the dollar.

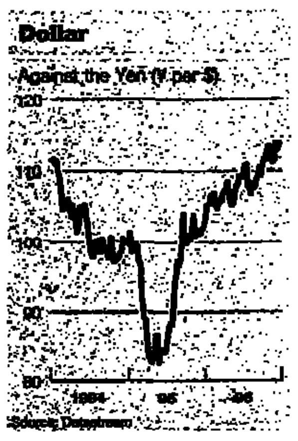
The Riksbank, Sweden's central bank, reduced its repo rate for the 25th time this year, by 25 basis points to 4.1 per cent. The market had expected the move, and the krona fell only slightly against the D-Mark, from SKr4.396 to SKr4.414. The Riksbank also said Sweden's inflation outlook had improved since its September report. The bank now expects inflation rates of 1.5 per cent in 1997 and two per cent in 1998.

■ French and German policymakers yesterday again pointed in different directions regarding the level of the dollar. The Bundesbank's monthly report said the D-Mark had now almost wholly corrected its excessive strength of last year, so that its level was in line with economic fundamentals. The report also suggested interest rates would not move for a while.

The message seemed to be that the Bundesbank rejected French demands for a rate cut aimed at boosting the dollar. France thinks a fall in the franc would stimulate its economy. But it can only make very minor cuts to its own rates – as it did yesterday – unless the Bundesbank eases too. Otherwise the franc would cease tracking the D-Mark, and the Emu process could collapse.

But although the Bundesbank yesterday seemed to exclude the option of a weaker D-Mark and French franc, Mr Jean Trichet, governor of the Bank of France, simultaneously called for exactly that. "It is possible that the market has a tendency to underestimate the underlying fundamentals of the dollar," he said, suggesting that the US currency was undervalued. He said the Group of Seven industrialised nations should discuss the issue. But France would not appear to have the Bundesbank's backing.

■ There was more support yesterday for the view that most Japanese officials want the dollar weaker than Y114 to the yen. That support came after Mr Kabun Muto, director general of Japan's management and co-ordination agency, said to general surprise that the yen should be "slightly cheaper" than its present level to help Japanese industry. His comment sent the dollar above Y114. But other unnamed Japanese officials later said Mr Muto had been speaking on a personal basis, and the dollar lost Y0.3 on the day to close at Y113.7.



■ Pound in New York

Dec 17	—Latest—	— Prev. close —
£ spot	1.6720	1.6670
1 mth	1.6713	1.6662
3 mth	1.6650	1.6638
1 yr	1.6563	1.6506

■ OTHER CURRENCIES

Dec 17	£	$
Czech Rp	45.6114 - 45.6721	27.2730 - 27.2930
Hungary	267.467 - 267.711	159.930 - 159.980
Iran	5020.20 - 5017.20	3000.00 - 3000.00
Kuwait	0.5009 - 0.5020	0.2995 - 0.3000
Poland	4.7655 - 4.7734	2.8495 - 2.8525
Russia	9265.10 - 9273.98	5540.00 - 5542.00
U.A.E.	6.1422 - 6.1488	3.6727 - 3.6731

● For the latest market update, ring FT Cityline on 0891 430003

See page 1 for call charges

POUND SPOT FORWARD AGAINST THE POUND

Dec 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.1930	+0.0267	822 - 037	18.2050	18.0940	18.1495	2.9	18.093	2.2	-	-	104.3
Belgium	(BFr)	53.2944	+0.072	659 - 229	53.3350	53.0000	53.1694	2.8	52.9044	2.9	51.7094	3.0	105.1
Denmark	(DKr)	9.8944	+0.0185	897 - 990	9.8992	9.8382	9.8744	2.4	9.8338	2.4	9.6549	2.4	106.9
Finland	(FM)	7.7235	+0.0151	149 - 321	7.7330	7.6830	-	-	-	-	-	-	84.6
France	(FFr)	8.7255	+0.0133	216 - 293	8.7299	8.6740	8.7048	2.9	8.6631	2.9	8.4593	3.1	108.0
Germany	(DM)	2.5853	+0.0037	839 - 867	2.5869	2.5709	2.5788	3.0	2.5655	3.1	2.5007	3.3	107.0
Greece	(Dr)	408.974	+1.509	735 - 213	409.232	405.762	-	-	-	-	-	-	66.8
Ireland	(I£)	1.0044	+0.0043	035 - 053	1.0055	0.9993	1.0041	0.4	1.0031	0.5	0.9965	0.8	102.4
Italy	(L)	2548.06	+4.82	606 - 009	2550.10	2536.88	2551.88	-1.8	2559.38	-1.8	2563.88	-0.6	77.9
Luxembourg	(LFr)	53.2944	+0.072	659 - 229	53.3350	53.0000	53.1694	2.8	52.9044	2.9	51.7094	3.0	105.1
Netherlands	(Fl)	2.9010	+0.0038	994 - 025	2.9028	2.8849	2.8992	3.2	2.8777	3.2	2.8042	3.3	105.1
Norway	(NKr)	10.7854	+0.0145	815 - 913	10.8012	10.7188	10.7739	1.4	10.7539	1.2	10.6489	1.3	99.8
Portugal	(Es)	261.023	+0.703	894 - 151	261.153	259.414	261.218	-0.9	261.588	-0.9	-	-	95.2
Spain	(Pta)	217.686	+0.517	579 - 793	217.794	216.477	217.766	-0.4	217.846	0.1	217.537	0.1	79.4
Sweden	(SKr)	11.4120	+0.0627	021 - 218	11.4235	11.3145	11.393	2.0	11.3485	2.2	11.139	2.4	87.8
Switzerland	(SFr)	2.2087	+0.0034	072 - 102	2.2120	2.1968	2.2006	4.4	2.1854	4.2	2.1139	4.3	105.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	94.0
Ecu	-	1.3424	+0.004	416 - 431	1.3434	1.3330	1.3405	1.7	1.336	1.9	1.3146	2.1	-
SDR†	-	1.154772	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6726	+0.0109	721 - 731	1.6733	1.6637	-	-	-	-	-	-	-
Brazil	(R$)	1.7417	+0.0148	410 - 423	1.7426	1.7291	-	-	-	-	-	-	-
Canada	(C$)	2.2879	+0.018	868 - 890	2.2894	2.2759	2.2828	2.7	2.2719	2.8	2.2129	3.3	84.4
Mexico	(New Peso)	13.1792	+0.0892	702 - 881	13.2060	13.1290	-	-	-	-	-	-	-
USA	($)	1.6729	+0.011	724 - 734	1.6750	1.6640	1.6722	0.5	1.6698	0.8	1.6568	1.0	98.1
Pacific/Middle East/Africa													
Australia	(A$)	2.1028	+0.0064	015 - 041	2.1057	2.0956	2.1041	-0.7	2.1048	-0.4	2.1044	-0.1	94.6
Hong Kong	(HK$)	12.9437	+0.0881	390 - 484	12.9497	12.8735	12.9364	0.7	12.9225	0.7	12.8579	0.7	-
India	(Rs)	59.8899	+0.3274	883 - 914	59.9915	59.6130	-	-	-	-	-	-	-
Israel	(Shk)	5.4848	+0.0342	778 - 913	5.4915	5.4551	-	-	-	-	-	-	-
Japan	(Y)	190.318	+0.778	185 - 450	190.490	189.190	189.388	5.9	187.533	5.9	179.118	5.9	128.4
Malaysia	(M$)	4.2232	+0.0241	211 - 253	4.2257	4.2016	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3617	-0.0133	598 - 636	2.3659	2.3480	2.3684	-3.4	2.3779	-2.7	2.3986	-1.6	112.2
Philippines	(Peso)	43.9806	+0.2892	005 - 606	44.0731	43.8963	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2743	+0.0413	722 - 763	6.2784	6.2410	-	-	-	-	-	-	-
Singapore	(S$)	2.3426	+0.0148	410 - 441	2.3445	2.3308	-	-	-	-	-	-	-
South Africa	(R)	7.8953	+0.0569	887 - 018	7.9105	7.8613	-	-	-	-	-	-	-
South Korea	(Won)	1411.17	+11.02	067 - 168	1412.96	1403.60	-	-	-	-	-	-	-
Taiwan	(T$)	46.0048	+0.3025	576 - 520	46.0640	45.7500	-	-	-	-	-	-	-
Thailand	(Bt)	42.8085	+0.2482	800 - 390	42.8550	42.5900	-	-	-	-	-	-	-

† Rates for Dec 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8751	-0.058	719 - 783	10.9010	10.8610	10.8604	1.6	10.8151	2.2	10.6201	2.3	104.2
Belgium	(BFr)	31.8575	-0.1675	500 - 650	31.9250	31.7840	31.7975	2.3	31.67	2.4	31.13	2.3	104.9
Denmark	(DKr)	5.9145	-0.028	135 - 155	5.9265	5.9033	5.9056	1.8	5.8872	1.8	5.8055	1.8	106.3
Finland	(FM)	4.6169	-0.0214	131 - 206	4.6275	4.6072	4.6081	2.3	4.5894	2.4	4.5069	2.4	84.0
France	(FFr)	5.2158	-0.0265	150 - 165	5.2334	5.2015	5.2074	1.9	5.1894	2.0	5.1138	2.0	107.5
Germany	(DM)	1.5454	-0.008	450 - 458	1.5498	1.5419	1.5425	2.3	1.5368	2.3	1.5118	2.2	106.5
Greece	(Dr)	244.470	-0.71	400 - 540	245.190	243.390	246.025	-7.6	248.595	-6.7	259.62	-6.2	66.5
Ireland	(I£)	1.6655	+0.0037	645 - 665	1.6695	1.6585	1.665	0.3	1.6647	0.2	1.6618	0.2	-
Italy	(L)	1523.15	-7.3	240 - 390	1527.84	1522.35	1526.32	-2.5	1532.75	-2.5	1545.8	-1.5	77.6
Luxembourg	(LFr)	31.8575	-0.1675	500 - 650	31.9250	31.7840	31.7975	2.3	31.67	2.4	31.13	2.3	104.9
Netherlands	(Fl)	1.7341	-0.0092	337 - 345	1.7387	1.7302	1.7303	2.6	1.7223	2.7	1.6867	2.7	104.8
Norway	(NKr)	6.4477	-0.034	467 - 487	6.4771	6.4295	6.444	0.7	6.4383	0.6	6.4127	0.5	99.0
Portugal	(Es)	156.030	-0.81	000 - 060	156.190	155.700	156.295	-1.6	156.53	-1.3	157.305	-0.8	95.5
Spain	(Pta)	130.125	-0.55	100 - 150	130.600	129.840	130.225	-0.9	130.395	-0.8	130.49	-0.3	79.2
Sweden	(SKr)	6.8217	-0.0074	178 - 255	6.8297	6.7841	6.8189	0.5	6.8091	0.7	6.7517	0.9	87.8
Switzerland	(SFr)	1.3203	-0.0067	198 - 208	1.3235	1.3170	1.3165	3.5	1.3087	3.5	1.2758	3.4	105.1
UK	(£)	1.6729	+0.011	724 - 734	1.6735	1.6640	1.6722	0.5	1.6698	0.8	1.6568	1.0	93.5
Ecu	-	1.2483	+0.0045	459 - 486	1.2516	1.2431	1.2476	-1.3	1.2506	-1.4	1.2673	-1.7	-
SDR†	-	0.695855	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0001	998 - 998	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.0411	+0.002	410 - 412	1.0416	1.0394	-	-	-	-	-	-	-
Canada	(C$)	1.3677	+0.0018	674 - 679	1.3715	1.3668	1.3653	2.1	1.3603	2.2	1.3328	2.6	84.0
Mexico	(New Peso)	7.8780	+0.0015	750 - 810	7.8840	7.8740	7.996	-18.0	8.2625	-19.5	9.123	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	99.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2570	-0.0044	566 - 574	1.2594	1.2558	1.2585	-1.4	1.2604	-1.1	1.2659	-0.7	96.4
Hong Kong	(HK$)	7.7373	+0.0018	368 - 378	7.7385	7.7352	7.7372	0.0	7.7378	0.0	7.7488	-0.1	-
India	(Rs)	35.8000	-0.04	500 - 500	35.8600	35.7450	36.015	-7.2	36.475	-7.5	-	-	-
Israel	(Shk)	3.2785	-0.0011	754 - 815	3.2817	3.2751	-	-	-	-	-	-	-
Japan	(Y)	113.765	-0.285	720 - 810	114.150	113.500	113.29	5.0	112.285	5.2	108.085	5.0	128.8
Malaysia	(M$)	2.5245	-0.0022	240 - 250	2.5270	2.5235	2.5274	-1.4	2.5328	-1.3	2.554	-1.2	-
New Zealand	(NZ$)	1.4117	-0.0174	110 - 124	1.4125	1.4109	1.4172	-4.7	1.4215	-2.8	1.453	-2.9	-
Philippines	(Peso)	26.2900	-	500 - 300	26.3900	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7507	3.7503	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4003	-0.0004	998 - 008	1.4009	1.3971	1.3982	1.8	1.3936	1.9	1.3723	2.0	-
South Africa	(R)	4.7195	+0.003	170 - 220	4.7400	4.7150	4.7602	-10.3	4.8352	-9.8	5.15	-9.1	-
South Korea	(Won)	843.550	+1.05	500 - 600	843.700	842.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5340	27.4740	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.5900	-0.02	800 - 000	25.6120	25.5700	25.68	-4.2	25.8475	-4.0	26.485	-3.5	-

† SDR rate per $ for Dec 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 16: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.57	16.37	4.851	1.884	4781	5.444	20.25	489.8	408.3	21.41	4.143	1.877	4.293	3.139	357.1	2.518
Denmark	(DKr)	53.86	10	8.816	2.613	1.015	2575	2.932	10.91	263.8	219.9	11.53	2.232	1.011	2.313	1.691	192.3	1.356
France	(FFr)	61.08	11.34	10	2.963	1.151	2920	3.325	12.37	299.1	249.4	13.08	2.531	1.146	2.622	1.917	218.1	1.538
Germany	(DM)	20.62	3.827	3.375	1	0.388	985.7	1.122	4.174	101.0	84.18	4.414	0.854	0.387	0.885	0.647	73.82	0.519
[illegible]																		

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6 per cent from October 30, 1996

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES AND AGRICULTURE

Copper ends up as stock level surprises

MARKETS REPORT

By Deborah Hargreaves and Kenneth Gooding

Copper prices jumped briefly on the London Metal Exchange yesterday after a smaller than expected increase in exchange stocks was reported. The rise was of 2,875 tonnes; some traders had predicted up to 12,000 tonnes.

Copper for delivery in three months moved back above $2,100 a tonne, but then subsided to end late trading $14 up at $2,095.

Analysts at Macquarie Equities pointed out that much of copper recently arrived in LME stocks was switched from New York's Comex warehouses, attracted by the LME's higher prices. "Very little other material has been arriving on the LME in recent weeks so, if the switching from Comex ends, LME stocks are likely to begin to decline again. The market could get extremely tight in the first quarter of 1997," they said.

The crude oil market weakened as some traders took profits following a steep rise in prices in late trading on Monday. At one stage, the North Sea Brent crude February futures contract on the International Petroleum Exchange was down 37 cents at $23.52 a barrel. The market recovered later, but prices were volatile after a rise of $1 a barrel on the London and New York markets late on Monday.

Reports of tankers loading up with Iraqi oil for the first time in six years yesterday were largely ignored by traders, who are still waiting to see its impact on consumers.

"Traders are still nervous about the political situation in the Middle East and, with stocks as low as they are, you can't take any chances on supply disruption," said Mr Mohammed Abduljabbar, oil market analyst at Petroleum Finance Company in Washington.

Iraq was reported yesterday to have signed contracts with 12 companies in Turkey, US, France, Italy, Netherlands, Japan, Russia and Austria for deliveries over six months.

Lumber futures on the Chicago Mercantile Exchange moved up by the maximum amount allowed after stronger than expected US housing starts.

LME WAREHOUSE STOCKS (As at Thursday's close) tonnes

Aluminium	+3,660	to 943,625
Aluminium alloy	-380	to 74,500
Copper	+2,875	to 115,375
Lead	+275	to 122,625
Nickel	+438	to 49,350
Zinc	-2,025	to 516,550
Tin	-10	to 9,780

State moves to stop China's silk worm turning

Industry readjusting after years of oversupply and falling quality

Through war, famine, pestilence and plenty, China has been producing silk for more than 5,000 years. For much of that time producers have coped well with the vagaries of the market – until China's own recent economic reforms turned the industry upside down.

Relaxation of state controls on cultivation of mulberry trees and an explosion in the number of new processing plants has led to oversupply, the production of poor quality materials, and a build-up of stocks – all resulting in a sharp fall in prices.

Mr Chen Youzhe, president of the China National Silk Import and Export Corporation (CNSIEC) says a doubling of production in the past 10 years had caused a "crisis" in the industry which requires intervention.

"The development of the silk industry has been a bit out of hand," he says. "The most severe problem is oversupply, and this chaos has been caused by the transition from a planned to market economy." Mr Chen also blames depressed markets in the leading economies. Of particular importance are Japan, the US, and Italy – the main destinations for Chinese silk products.

Another factor was what he described as "misleading information" about demand provided to producers of silk cocoons, the primary stage of production, which led to a threefold spread in the area of mulberry trees under cultivation between 1987 and 1995.

Such is China's importance to the world silk market – it accounts for 70 per cent of world consumption of raw silk, semi-finished and finished fabric – that difficulties in local production inevitably cause a ripple effect, with poor-quality products undermining confidence.

Concern about the industry prompted the formation this year of a special group under the State Council, or cabinet, to help restore order. The State Cocoon, Silk and Satin Co-ordination Team was given ministerial status and charged with regulating the industry at every stage of production.

"The silk trade is so important both for China and the world that its rescue is imperative," the China Daily quoted Mr Yi Hui, director of the new team, as saying. In the first half of this year silk exports were down 20 per cent, according to the newspaper.

The disruption is serious for China, since labour-intensive raw silk cultivation and processing involves some 20m people, with production worth Yn14bn ($1.7bn). Raw silk output accounts for about 75-80 per cent of the world total.

China exports the bulk of its production either in the form of raw silk, "grey" fabric (semi-finished product), or finished garments. Total value of silk exports in 1995 was down 17.7 per cent on the year before, to $2.6bn. Cocoon exports dropped 58 per cent and silk garments were down 29 per cent.

Other measures adopted to stabilise the industry and improve the outlook for exports include the establishment of a new management system in producing areas to co-ordinate cultivation, processing, marketing and trade. The authorities have also set up trade offices in Japan and Hong Kong to improve "quantitative and qualitative controls", according to Mr Chen of CNSIEC.

Corrective measures, including closure of inefficient, low-technology mills, appear to be having an effect. At the Guangzhou trade fair in autumn, raw silk prices were up 10 per cent. Prices for "grey" fabric had stabilised after dropping over the past two years.

A reduction of about 30-35 per cent in cocoon production, along with the weeding out of poor-quality producers, have also helped to restore stability.

Mr Chen expects total exports this year of all silk products to be about the same as last year. A CNSIEC report says the corporation is "cautiously optimistic about the international silk market in 1996".

Mr Chen says that not enough has been done to promote silk's special properties. More work is also required to overcome what he describes as the fabric's two main obstacles: its image as a high-price fabric, and its tendency to crease.

Tony Walker

Priced to clear: relaxation of state controls has led to over-production and market instability

COMMODITIES NEWS DIGEST

Australia reduces export forecasts

The forecast value of Australia's commodity exports for 1996-97 was revised downwards to A$58.9bn (US$46.7m) yesterday by the Australian Bureau of Agricultural and Resource Economics, the government forecasting body. The estimate was down A$800m from three months earlier, because of a continued decline in world commodity prices. However, it still represents a 2.5 per cent increase from the previous year.

The overall rise is largely attributed to mineral and energy exports, predicted to rise 4.5 per cent to A$36.3bn, while exports of rural commodities are forecast to fall slightly, to A$22.6bn, the bureau said in its report for the December quarter. Australia is expecting a bumper wheat crop this year, but the value of wheat exports is forecast to be about 9 per cent lower because of falling world wheat prices after the highs of 1995-96, and near-record world production.

Export earnings for beef and sugar are also forecast to decline, but will be partly offset by rising export values for wool and dairy products. Farm production is set to rise 7.6 per cent, continuing its recovery from the drought of two years ago.

The volume of wine exported is expected to grow to a record 164m litres, up 26.2 per cent from the previous year, with a value of A$632m, up 34.8 per cent.

Bethan Hutton, Sydney

Greece awards oil licences

DEP-EKY, the state-owned Greek oil research company, has awarded four oil exploration licences in the country to UK and US companies, under new legislation designed to lift international oil companies' interest in Greece.

Enterprise Oil of the UK and Union Texas will invest $26m and $35m, respectively, in exploring onshore blocks in the north-west Peloponnese and the Epirus region from mid-1997. Triton Resources, of the US, will invest $61m over the next four years in exploring an offshore block in the Patras Gulf and a nearby onshore block in Aetolo-Acharnania.

DEP-EKY, which has experience in offshore oil drilling in the northern Aegean, will take a 12 per cent stake in each concession area and provide equipment and research staff, the company said.

Kerin Hope, Athens

BHP and Japan agree prices

BHP, the Australian mining group, yesterday agreed coal prices and tonnages with Japanese Steel Mills for the year from April 1 1997. Prices for premium hard coking coal were higher, but those for lower quality coal fell. Volumes for both categories have increased, from 5m to 5.5m tonnes of hard coking coal, and from 4.7m to 5.5m tonnes of weak coking coal, Japan accounts for more than a quarter of BHP's coal production.

BHP yesterday reported increased first-half production in all its divisions except gas and steel. Coal production grew 15 per cent to 11.8m tonnes in the six months to November 1996; iron ore climbed 10 per cent to 27.3m tonnes, and copper concentrate was up 41 per cent to 352,000 tonnes.

Bethan Hutton

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1486.5-87.5	1518.5-19
Previous	1481.5-2.5	1513-3.5
High/low	1488	1530/1518
AM Official	1488-89	1520-20.5
Kerb close		1529-30
Open int.	248,190	
Total daily turnover	73,085	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1335-40	1355-60
Previous	1325-30	1355-40
High/low		1365
AM Official	1347-49	1365-66
Kerb close		1360-65
Open int.	6,281	
Total daily turnover	2,148	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	687.5-8.5	694-5
Previous	682-3	688-9
High/low	684	701/686
AM Official	683-4	692-2.5
Kerb close		701-2
Open int.	38,421	
Total daily turnover	10,550	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6450-60	6550-60
Previous	6455-65	6550-65
High/low		6625/6520
AM Official	6445-50	6545-50
Kerb close		6575-80
Open int.	47,841	
Total daily turnover	17,487	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5710-20	5765-70
Previous	5675-85	5715-25
High/low		5840/5710
AM Official	5690-95	5736-38
Kerb close		5825-30
Open int.	16,307	
Total daily turnover	4,696	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1026.5-27.5	1051-52
Previous	1025-6	1049-50
High/low	1025	1055/1049
AM Official	1024.5-25	1050-51
Kerb close		1055-56
Open int.	81,231	
Total daily turnover	24,733	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2150-52	2101-02
Previous	2165-70	2107-8
High/low	2161	2118/2077
AM Official	2160-61	2108-09
Kerb close		2093-95
Open int.	165,801	
Total daily turnover	105,646	

■ LME AM Official £/$ rate: 1.6654
LME Closing £/$ rate: 1.6727

Spot: 1.6628 3 mths: 1.6596 6 mths: 1.6555 9 mths: 1.6513

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	98.80	-1.25	100.50	98.00	1,409	4,091
Jan	97.85	-0.80	99.70	97.60	182	6,394
Feb	97.20	-0.45	99.00	97.20	36	1,498
Mar	96.40	-0.25	98.25	95.80	8,828	22,217
Apr	95.20	-0.05	95.20	95.00	36	925
May	93.90	-0.10	95.30	93.60	412	4,616
Total					11,259	58,684

PRECIOUS METALS

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	369.00-369.40		
Opening	367.60-367.90		
Morning fix	369.30	220.90	496.49
Afternoon fix	368.20	220.31	486.02
Day's High	369.80-370.00		
Day's Low	367.60-367.90		
Previous close	368.70-369.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.47	6 months	3.67
2 months	3.51	12 months	3.73
3 months	3.61		

Silver Fix	p/troy oz.	US cts equiv.
Spot	288.40	480.50
3 months	292.40	486.25
6 months	296.75	492.30
1 year	305.65	504.35

Gold Coins	$ price	£ equiv.
Krugerrand	369-370	220-221
Maple Leaf	-	-
New Sovereign	86-89	51-53

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Vol	Open int
Dec	369.2	+0.8	369.5	368.5	195	741
Jan	369.7	+0.8	-	-	-	-
Feb	370.5	+0.6	371.8	369.0	11,373	91,988
Apr	372.7	+0.6	394.0	371.8	1,360	22,161
Jun	375.1	+0.7	376.3	374.8	200	15,715
Aug	377.5	+0.7	-	-	262	5,297
Total					14,033	185,869

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Vol	Open int
Jan	371.8	+1.7	372.9	369.7	1,381	14,636
Apr	373.6	+1.6	374.5	371.5	659	12,570
Jul	376.3	+1.6	376.0	374.9	17	2,024
Oct	379.0	+1.6	380.7	378.3	34	1,960
Total					2,091	31,412

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Vol	Open int
Dec	117.75					
Mar	119.50	-0.25	120.75	119.50	104	7,218
Jun	120.75	-0.30	-	-	2	385
Sep	121.75	-0.30	-	-	-	5
Dec	122.75	-0.30	-	-	-	17
Total					104	7,623

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	low	Vol	Open int
Dec	484.0	+5.8	489.0	478.5	53	93
Jan	484.4	+5.8	485.5	484.0	8	26
Feb	486.8	+5.8	-	-	-	2
Mar	489.3	+5.8	495.5	482.0	3,845	56,216
May	493.9	+6.0	500.0	487.5	35	9,414
Jul	498.3	+6.1	505.0	493.0	59	8,348
Total					4,006	83,728

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	25.65	-0.09	25.80	25.31	45,936	43,045
Feb	25.02	-0.07	25.12	24.73	46,242	86,425
Mar	24.43	-0.07	24.50	24.18	13,389	32,120
Apr	23.82	-0.08	23.90	23.65	8,854	21,380
May	23.27	-0.04	23.30	23.10	3,467	18,802
Jun	22.71	-0.05	22.73	22.52	3,247	28,172
Total					129,190	369,589

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	23.85	-0.04	23.85	23.52	12,094	59,845
Mar	23.23	-0.02	23.23	22.99	2,036	32,935
Apr	22.52	-0.08	22.59	22.41	2,131	14,755
May	21.92	-0.08	21.97	21.70	801	10,301
Jun	21.33	-0.12	21.39	21.20	1,332	11,812
Jul	20.78	-0.23	20.78	20.78	100	9,923
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	74.25	-0.57	74.80	73.25	25,011	29,185
Feb	72.90	-0.32	73.30	72.10	13,617	31,636
Mar	69.60	-0.12	69.75	68.90	5,121	13,137
Apr	65.10	-0.12	65.25	64.50	1,829	8,034
May	61.90	-0.07	61.90	61.50	1,268	4,947
Jun	60.00	+0.03	60.00	59.50	590	5,287
Total					48,061	111,278

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	222.00	-0.50	224.50	220.50	4,667	29,893
Feb	216.00	+0.75	217.00	214.50	2,578	12,377
Mar	208.00	+0.75	208.25	206.75	1,020	8,346
Apr	199.00	+0.50	199.50	198.00	581	5,980
May	193.25	+1.00	193.50	192.75	105	2,818
Jun	188.75	+1.00	188.50	188.00	263	7,469
Total					17,116	72,442

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	4.400	-0.067	4.600	4.080	26,164	32,742
Feb	3.850	-0.034	4.020	3.550	9,736	30,458
Mar	3.200	+0.066	3.340	3.000	1,548	16,188
Apr	2.670	-0.035	2.795	2.550	1,391	9,678
May	2.420	-0.020	2.495	2.390	1,913	7,636
Jun	2.310	-	2.370	2.250	1,460	7,034
Total					46,719	160,308

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	69.60	+0.28	70.10	68.65	14,496	19,862
Feb	68.85	+0.18	69.05	67.95	7,676	19,777
Mar	68.30	-0.17	69.00	67.85	3,318	10,425
Apr	70.05	-	70.30	69.45	1,008	4,808
May	69.00	-0.42	69.15	69.00	384	3,153
Jun	67.30	-	67.30	67.30	73	2,626
Total					26,962	62,555

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	95.90	+0.15	96.50	95.90	40	1,039
Mar	98.20	+0.05	98.75	98.00	98	2,051
May	100.00	-	100.65	99.75	43	2,395
Jul	101.30	+0.15	101.75	101.00	93	354
Sep	93.80	+0.30	94.00	94.00	5	2
Nov	95.80	+0.30	96.05	95.80	8	838
Total					287	6,684

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	404.50	-9.25	409.00	402.00	294	600
Mar	394.25	-1.75	397.50	391.00	8,204	31,613
May	370.25	+1.50	373.00	367.50	1,161	5,240
Jul	348.00	+2.00	348.50	343.50	4,200	19,028
Sep	351.00	+1.50	352.00	349.00	6	775
Dec	361.00	+1.50	364.00	358.50	13	483
Total					13,878	57,946

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	270.75	+0.75	272.50	270.00	6,545	7,067
Mar	265.50	+2.00	266.75	263.50	28,344	148,018
May	267.50	+1.75	268.75	266.00	6,553	52,656
Jul	269.50	+1.75	270.50	268.25	4,753	55,044
Sep	264.25	+2.00	265.00	263.00	113	5,803
Dec	262.50	+2.00	263.50	261.00	1,639	35,872
Total					47,988	307,439

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	94.25	-	94.60	94.50	28	454
Mar	95.75	-	96.10	96.00	68	227
May	97.00	-	-	-	-	130
Sep	93.00	-	-	-	-	8
Nov	95.00	-	95.00	95.00	1	206
Total					97	1,025

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	706.50	-5.00	713.00	706.00	26,129	48,017
Mar	701.50	-5.50	708.75	701.00	12,733	43,604
May	698.50	-5.75	705.00	698.00	2,235	25,136
Jul	699.00	-6.75	708.00	698.50	2,838	24,094
Aug	697.25	-5.75	704.00	697.00	93	2,850
Sep	680.50	-5.50	686.00	680.50	48	478
Total					45,012	185,174

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	23.16	+0.03	23.30	23.14	2,324	1,405
Jan	23.36	+0.04	23.50	23.32	9,487	27,801
Mar	23.80	+0.06	23.93	23.72	6,142	27,765
May	24.12	+0.05	24.18	24.05	1,142	13,245
Jul	24.37	+0.05	24.42	24.29	877	9,888
Aug	24.40	+0.08	24.48	24.40	25	1,844
Total					20,087	85,022

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	241.0	-1.2	243.0	240.2	2,684	4,788
Jan	228.9	-2.4	231.3	228.7	12,200	23,695
Mar	221.9	-2.2	224.3	221.6	5,603	24,654
May	216.8	-2.5	219.0	216.5	1,149	15,149
Jul	215.7	-2.7	218.0	215.6	794	10,814
Aug	214.7	-2.3	217.0	214.7	42	2,078
Total					22,730	84,481

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	50.5	-1.5	-	-	-	-
Apr	60.5	-1.5	30.5	60.5	5	1,262
May	62.5	-1.5	62.5	62.5	4	39
Jun	72.5	-1.5	-	-	-	-
Apr	113.0	-	-	-	-	557
Total					9	1,880

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1518	-2	1519	1519	20	324
Jan	1435	-20	1450	1430	73	1,858
Feb	1410	-10	1420	1410	56	312
Apr	1480	-12	1490	1475	27	849
Jul	1215	-3	1218	1215	34	414
Oct	1325	-4	-	-	-	100
Total					212	3,882

	Close	Prev
BFI	1513	1507

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	851	-9	855	851	8	141
Mar	906	-7	911	904	3,280	49,103
May	926	-7	931	924	1,389	17,127
Jul	945	-6	949	945	597	12,373
Sep	963	-5	969	964	677	8,381
Dec	973	-6	979	973	198	6,696
Total					6,387	119,937

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1356	-6	1368	1355	15,799	33,683
May	1380	-6	1392	1380	2,321	12,671
Jul	1404	-6	1413	1403	1,524	8,032
Sep	1423	-6	1430	1430	107	6,757
Dec	1443	-6	1449	1448	102	1,492
Mar	1458	-4	1467	1459	7,210	11,892
Total					27,063	79,290

■ COCOA (ICCO) (SDR's/tonne)

Dec 16	Price	Prev. day
Daily	1021.73	1020.24

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1314	-14	1315	1300	1,808	13,253
Mar	1258	-17	1260	1245	2,145	20,889
May	1221	-20	1222	1210	826	6,734
Jul	1208	-16	1214	1202	86	1,851
Sep	1208	-16	1211	1202	138	1,062
Nov	1208	-16	1211	1208	43	575
Total					5,068	44,168

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	125.15	+0.65	126.75	120.00	231	229
Mar	109.80	-0.05	111.00	109.25	8,060	15,762
May	107.15	-0.25	108.40	106.80	1,559	6,345
Jul	106.05	+0.30	107.00	105.80	318	1,867
Sep	104.00	+0.25	104.00	103.50	131	1,468
Dec	101.50	-0.15	103.00	101.50	23	1,089
Total					10,380	26,944

■ COFFEE (ICO) (US cents/pound)

Dec 16		Prev. day
Comp. daily	90.04	90.89
15 day average	91.00	91.36

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	304.8	+3.4	305.6	301.3	1,034	14,893
May	304.4	+3.5	304.2	300.7	120	5,529
Aug	305.3	+3.1	306.0	302.6	13	2,617
Oct	301.0	+0.9	302.5	300.5	24	1,752
Dec	301.5	-	303.0	302.9	8	557
Mar	303.0	+0.3	304.5	304.4	6	377
Total					1,205	25,767

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.77	+0.21	10.83	10.55	8,485	78,209
May	10.81	+0.17	10.87	10.66	2,884	30,540
Jul	10.81	+0.18	10.86	10.66	974	22,503
Oct	10.83	+0.14	10.86	10.70	368	12,888
Mar	10.84	+0.14	10.87	10.72	143	3,732
May	10.83	+0.14	10.85	10.85	2	836
Total					18,858	148,201

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	75.54	-0.31	75.95	75.41	2,550	25,275
May	76.55	-0.27	76.90	76.50	797	10,592
Jul	77.36	-0.29	77.65	77.30	277	7,850
Oct	77.00	-0.12	77.00	77.00	8	1,236
Dec	76.60	-0.20	76.75	76.50	126	9,640
Mar	77.50	-0.12	77.55	77.50	1	480
Total					3,758	55,461

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	90.40	-1.00	91.50	89.80	1,459	9,716
Mar	93.65	-1.10	94.80	92.80	1,746	11,604
May	97.00	-1.00	98.00	96.50	372	3,194
Jul	98.75	-1.00	100.00	99.50	12	724
Sep	102.75	-1.25	103.50	102.55	1	269
Nov	102.75	-1.25	-	-	1	78
Total					3,591	25,829

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	66.725	-0.250	67.175	66.700	2,323	6,494
Feb	63.250	-0.725	64.050	63.200	5,221	32,990
Apr	64.450	-0.525	64.975	64.400	2,092	22,265
Jun	62.300	-0.375	62.700	62.250	873	9,396
Aug	62.100	-0.300	62.400	62.075	320	8,129
Oct	64.675	-0.200	65.000	64.650	338	5,886
Total					11,193	86,828

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	80.125	+0.125	80.475	59.850	1,548	4,283
Feb	75.450	-0.300	76.125	75.350	3,814	14,076
Apr	71.425	-0.300	72.100	71.300	612	5,592
Jun	74.475	-0.325	75.000	74.400	648	5,011
Jul	71.675	-0.150	71.900	71.525	115	1,417
Aug	68.000	-0.200	68.100	67.900	65	931
Total					6,932	32,547

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	77.375	-0.325	78.500	77.000	1,485	4,426
Mar	76.575	-0.325	77.500	76.300	119	883
May	77.450	-0.350	77.800	77.200	33	559
Jul	77.400	-0.575	77.800	77.000	33	472
Aug	72.850	-0.525	73.400	72.700	12	110
Total					1,682	6,486

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	23	78	14	40
1525	12	64	27	51
1550	5	52	46	64

■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2050	96	127	15	114
2100	62	105	31	140
2150	37	86	55	170

■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1200	114	89	-	31
1250	64	60	-	52
1300	22	39	8	81

■ COCOA LIFFE	Mar	May	Mar	May
850	61	84	5	8
875	42	65	11	14
900	27	49	21	23

■ BRENT CRUDE IPE	Feb	Mar	Feb	Mar
2300	124	-	64	-
2350	97	-	87	-
2400	77	-	115	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$21.80-1.90w	-0.075
Brent Blend (dated)	$24.08-4.12	+0.025
Brent Blend (Feb)	$23.74-3.76	
W.T.I.	$25.02-5.04w	+0.075

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$225-227	+3
Gas Oil	$222-223	-1
Heavy Fuel Oil	$113-115	
Naphtha	$220-223	+1.5
Jet fuel	$252-254	-0.5
Diesel	$237-239	+1.5

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	18.70-19.20	+0.20

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$369.20	+0.35
Silver (per troy oz)♣	488.50c	+8.00
Platinum (per troy oz.)	$367.00	-0.75
Palladium (per troy oz.)	$117.50	-0.25
Copper	106.0c	-2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.31r	-0.20
Tin (New York)	265.50	-4.00
Cattle (live weight)	108.72p	-4.51*
Sheep (live weight)	132.81p	-4.88*
Pigs (live weight)†	89.48p	-0.57*
Lon. day sugar (raw)	$262.00	-2.40
Lon. day sugar (wte)	$306.40	-0.60
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	80.50p	
Rubber (Feb)♥	80.50p	
Rubber (KL RSS No1)	319.5x	+0.5
Coconut Oil (Phil)§	$810.0y	+15.0
Palm Oil (Malay.)§	530.0x	
Copra (Phil)§	495.0	
Soyabeans (US)	195.0z	
Cotton Outlook'A' index	79.55	-0.05
Wooltops (64s Super)	395p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Jan w Feb y Dec/Jan♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on no head of pigs sold. ♦ New month of January.

Minor Metals

European Free Market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (Last week's in brackets, where changed) Antimony, 99.65% -$ per tonne 2100-2175 (2075-2175) Bismuth min 99.99% tonne lots 3.00-3.40 Cadmium 99.95% cts a pound 65-70 Cobalt MB free mkt min 99.8% 21.25-22.25 (21.50-22.50) min 99.3% 20.25-20.75 (20.25-21.00) Mercury min 99.99% $ per 76lb flask 162-172 Molybdenum Drummed molybdic oxide 4.30-4.60 Selenium min 99.5% 2.60-3.60 Tungsten ore Std min 65% $ per tonne unit (10kg) WO$_3$ cif 43-53 Vanadium min 98% cif 3.25-3.35 *Uranium nuexco unrestricted exchange value 14.40*

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 17	Dec 16	month ago	year ago
1860.5	1865.5	1885.4	2114.4

■ CRB Futures (Base: 1967 = 100)

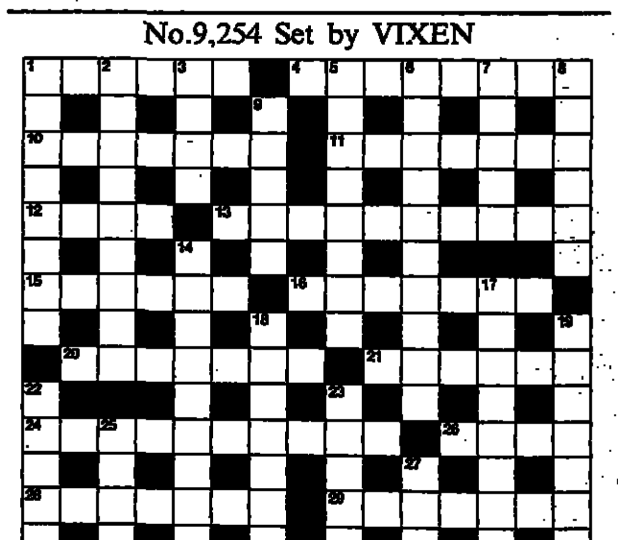
Dec 16	Dec 13	month ago	year ago
245.58	243.76		

■ GSCI Spot (Base: 1970 = 100)

Dec 16	Dec 13	month ago	year ago
227.66	217.76	210.03	195.71

CROSSWORD

No.9,254 Set by VIXEN



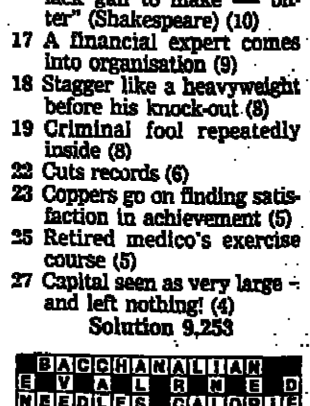
ACROSS

1 Set around a stately home (6)
4 Near-cold mash may be found in the kitchen (8)
10 Those acting for top people concerned with common men (7)
11 Counting as influential (7)
12 Suspend for a quite mild imprecation (4)
13 Many a lag without hesitation becomes an idler (10)
15 The scout having to sleep inside is grumpy (6)
16 Make a reduction for each botched-up draft (7)
20 A wood the city outskirts bear down on (7)
21 Scuttles a ship carrying wildfowl (6)
24 Where to see kings and queens, but only in black and white (10)
26 Notes there's seating available (4)
28 He composed a piece of music – "The Hero's Sin" in C (7)
29 To sack a large number is to be unsuccessful (7)
30 Woman modelling a man's hat (8)
31 Relax to make a point over and over again (6)

DOWN

1 The advantage of buying (8)
2 Money expended on green day make-up that is really fantastic (9)
3 Figure it's a hundred to one (4)
5 Sweeping victory for Labour? (8)
6 A union within which there's exemplary loyalty (10)
7 The German taken round the American centre gets a towel (5)
8 Look at only a part of the entire garden (6)
9 Try writing (5)
14 "I am pigeon-livered, and lack gall to make — bitter" (Shakespeare) (10)
17 A financial expert comes into organisation (9)
18 Stagger like a heavyweight before his knock-out (8)
19 Criminal fool repeatedly inside (8)
22 Cuts records (6)
23 Coppers go on finding satisfaction in achievement (5)
25 Retired medico's exercise course (5)
27 Capital seen as very large – and left nothing! (4)

Solution 9,253



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Fidelity Currency Funds Ltd						
Pembroke Hall, Pembroke, Bermuda						
A$ Accum			A$19.282		+0.002	5.10
Asia Accum			[illegible]		+0.02	2.10
C$ Accum			C$18.767		+0.001	2.30
DM Accum			DM[illegible].432		+0.002	1.90
DFl Accum			DFl31.741		+0.002	1.70
ECU Accum			Ecu13.558		+0.001	3.00
FFr Accum			FFr107.264		+0.004	2.20
HK$ Accum			HK$122.04		+0.01	4.20
Lire Accum			L[illegible]		+5	6.80
NZ$ Accum			NZ$40.402		+0.006	7.40
NKr Accum			NKr113.06		+0.01	3.00
S$ Accum			S$26.129		+0.001	2.40
SPts Accum			Pts2769.9		+0.4	5.80
£ Accum			£13.225		+0.002	4.90
SKr Accum			SKr121.74		+0.01	3.00
SFr Accum			SFr29.412		+0.001	0.40
US$ Accum			$23.874		+0.003	4.40
Yen Accum			Y2590.8		—	0.10

Prices for dealing December 17

Jupiter Tyndall (Bermuda) Ltd — PO Box HM1258, Hamilton, Bermuda

Prudential Fund Managers (Guernsey) Ltd — Po Box 61, St Peter Port Guernsey

		Selling Price	Buying Price	+ or -	Yield
Managed Sterling		147.9	148.6	-0.2	4.88
Managed Dollar	5	$14.20	14.24	+0.03	4.52
Dollar Deposit		$10.05	10.05	—	3.74

Rothschild Asset Management (CI) Ltd — PO Box 242, St Peter Port, Guernsey

[Remaining fund price tables — Bermuda (Regulated), Guernsey (SIB Recognised), Guernsey (Regulated), Ireland (SIB Recognised), Ireland (Regulated), Isle of Man (SIB Recognised), Isle of Man (Regulated), Jersey (SIB Recognised), Jersey (Regulated) — illegible at scan resolution]

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Worldinvest (Managers) Jersey Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Worldinvest Inc Fd †	$294.93	295.26	—	5.65
Excelsior Glbl Emg Mkts	$8.79	8.84	-0.07	-
Excelsior Global Eqty $ *	$80.14	80.55	-1.49	-
Excelsior Stg Gloal Fixed Inc*	£11.47	11.54	-0.12	5.05

Valued weekly. * Mondays. † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 424948320

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity			$47.62	48.33	—	-
North America Equity			$81.99	82.40	—	-
Asian Tigers Equity			$63.42	64.05	—	-
Europe Equity			$75.08	75.46	—	-
Germany Equity			DM140.75	141.45	—	-
Japan Equity			$47.61	48.09	—	-
Europe Bond			$61.98	62.13	—	-
US Bond			$59.41	59.56	—	-
Global Bond			$61.70	61.85	—	-

Fidelity Funds - Contd.

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Country Select Funds						
ASEAN			$19.76		+0.16	-
Asian Special Situations			$10.92		+0.09	-
Australia			A$16.63		+0.15	-
Emerging Markets			$8.074		-0.001	-
European Sm Cos F			DM14.63		+0.09	-
France			FFr87.85		+0.45	-
Germany			DM22.32		+0.17	-
Hong Kong			$53.77		+0.50	-
Iberia			Pta2001		+33	-
Indonesia			$11.12		-0.03	-
Italy			L14695		+239	-
Japan Smlr Cos			Y871.2		+2.3	-
Korea F	0		$8.965		-0.105	-
Latin America			$8.297		+0.005	-
Malaysia			$35.03		+0.17	-
Nordic			SKr200.1		+1.8	-
Singapore			$28.22		+0.39	-
Switzerland			SFr15.46		+0.11	-
Thailand			$25.49		+0.13	-
United Kingdom			£7.145		--	-
Bond Funds						
European			Ecu11.37		+0.04	6.90
International			$1.059		-0.001	5.30
US Dollar			$5.891		+0.004	5.72
Sterling			£0.252		—	7.20
Yen			Y1885		+2	2.34

Mercury Asset Management S.A.

B.P. 1058, L-1010 Luxembourg 00 352 3420101

Mercury Selected Tst-SICAV (a)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Belgian Franc Global Bond			BFr1280	1284	-3.00	0.00
DM Global Bond			DM28.26	28.38	-0.06	3.88
Dollar Global Bond			$13.47	14.19	-0.02	3.88
Peseta Global Bond			Pta1480	1550	-3.00	0.00
Sterling Global Bond			£11.15	11.73	-0.01	3.83
Swiss Franc Global Bond			SFr106.85	112.51	-0.27	3.51
Yen Global Bond			$14.88	15.46	-0.01	3.86
European Bond			DM22.93	24.15	-0.02	4.14
Global Portfolio			$14.15	14.90	-0.05	0.00
Global Equity			$67.78	71.36	-0.40	0.00
Emerging Markets			$11.50	12.12	—	0.00
Gold & Mining			$9.72	10.24	-0.17	0.00
Australian & New Zealand			$26.66	28.38	-0.13	0.00
Eastern European			DM41.08	43.16	+0.10	0.00
European			$40.41	42.56	+0.05	0.00

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund (u)

	Selling Price	Buying Price	+ or -	Yield Gross
Regional Equity Funds				
American Equity	$12.01		-0.10	-
Asian Equity	$25.16		-0.08	-
Australian Equity	A$7.89		+0.06	2.01
European Equity	$13.77		+0.22	-
Japanese Equity	Y379		+1	2.30
UK Equity	£10.47		+0.04	2.30
Specialist Funds				
American Smaller Cos	$7.47		-0.04	1.38
Emerging Asia	$5.49		-0.01	-
Emerging Europe	$9.85		+0.01	1.10
Latin American	$4.26		—	9.35

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
Australian Dollar Portfolio				
Class A	A$22.65		+0.07	-
Class B	A$21.75		+0.06	-
Canadian Dollar Portfolio				
Class A	C$17.84		-0.06	-
Class B	C$17.22		-0.06	-
Deutschemark Portfolio				
Class A	DM15.57		+0.09	-
Class B	DM14.84		+0.08	-
Pound Sterling Portfolio				
Class A	£18.42		—	-
Class B	£17.74		+0.01	-
US Dollar Portfolio				
Class A	$15.88		-0.01	-
Class B	$14.76		-0.02	-
Yen Portfolio				

Southern International SICAV

	Selling Price	Buying Price	+ or -	Yield Gross
SI Global Equities	$103.71		—	-
SI Global Bonds	$100.6		—	-
SI Global Money Market	$99.6		—	-
SI South African Equities	$91.13		—	-
SI South African Bonds	$99.4		—	-
SI European Equities	$103.07		—	-
SI Far East Excpt Japan Equities	$101.8		—	-
SI Japan Equities	$93.22		—	-

State Street Luxembourg SA

	Selling Price	Buying Price	+ or -	Yield Gross
Omega	DM1146.17		—	-
Global Advantage Funds				
Major Markets	DM1373.81		—	-
Emerging Markets	DM1088.95		—	-

Storebrand Scudder Environmental Value Fd

	Selling Price	Buying Price	+ or -	Yield Gross
Environmental Value Class A	$180.340		-2.370	-

CMI Ins Co Ltd/Clerical Med Gen Life

Clerical Medical Hse, Douglas, IoM 00 (44) 1624 [illegible]

OFFSHORE INSURANCES

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International (Guernsey) Ltd

PO Box 121, St. Peter Port Guernsey 01481 726726

	Selling Price	Buying Price	+ or -	Yield Gross
£ Stlg Managed	£4.818	4.858	—	-
£ European Stockmkt	£5.173	5.553	—	-
£ UK Stockmkt	£5.184	5.574	—	-
£ Sterling Special Mkt	£4.712	5.067	—	-
£ UK Fixed Interest	£4.836	5.200	—	-
£ Stlg Money Mkt	£2.988	3.213	—	-
£ Capital Guarantee	£1.723	1.853	—	-
$ Dollar Managed	$3.340	3.601	—	-
$ Intl Stockmkt	$4.439	4.773	—	-
$ US Dollar Bond	$1.401	1.506	—	-
$ Nth Am Stockmkt	$3.912	4.207	—	-
$ Japan Stockmkt	$1.590	1.710	—	-
$ Pacific Stockmkt	$5.364	5.768	—	-
$ Emerging Asian Stockmkt	$2.329	2.505	—	-
$ Hong Kong Stockmkt	$8.027	8.631	—	-
$ Intl Fixed Interest	$3.898	4.192	—	-
$ Intl Mngd Currency	$2.482	2.648	—	-
$ Dollar Money Mkt	$2.278	2.450	—	-
$ Latin American Stockmkt	$0.935	1.005	—	-
$ Dollar Special Mkt	$1.060	1.140	—	-
$ Emerging Market Bond	$1.214	1.306	—	-
$ Emerging Stockmarkets	$0.854	0.918	—	-
G'teed Futures1 Sep '98		$1.857	—	-
G'teed Futures2 Mar '99		$1.591	—	-
G'teed Futures3 Sep '99		$1.535	—	-
G'teed Futures4 Dec 2000		$1.711	—	-
G'teed Futures5 Dec 2001		$0.601	—	-
Guaranteed 105 Futures Bond		$1.108	—	-
Swiss Franc Managed	SFr7.261	7.807	—	-
Swiss Franc Money Mkt	SFr1.286	1.383	—	-
Commodity	SFr1.066	1.147	—	-
DEM Deutschemark Mgd	DM2.737	2.943	—	-
$ Secure Stkmkt Index	$0.941	1.013	—	-
£ Secure Stkmkt Index	$0.942	1.014	—	-
Broker Managed Funds				
£ OFS Global Port	£1.375	1.479	—	-
£ YRA Worldwide	£1.328	1.428	—	-
$ YRA Dlr Worldwide	$1.525	1.640	—	-
Young & Co Glbal P'folio	$1.297	1.394	—	-
Pioneer Mid Term Agg	$1.164	1.251	—	-
Pioneer Long Term Cons	$1.152	1.238	—	-
Pioneer Long Term Agg	$0.871	0.937	—	-
MFP Selective Mgd	$1.125	1.209	—	-
Aztec International Managed	$0.850	0.914	—	-
Mayoo Intl Ltd Global Eqty	DM0.900	0.970	—	-

PanEuroLife societe anonyme

26 Av Marie-Therese, Luxembourg 00 352 456730

[illegible]

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

Global Asset Management - Contd.

Swiss Registered Funds

	Selling Price	Buying Price	+ or -	Yield Gross
GAM (CH) Europe	SFr117.80		+1.35	-
GAM (CH) Mondial	SFr283.20		+1.00	-
GAM (CH) Pacific	SFr276.10		+2.95	-
SEC Registered Funds				
GAMerica Capital	$11.41		-0.07	-
GAM Asian Capital	$9.45		+0.10	-
GAM Europe	$77.58		+0.06	-
GAM Global A	$14.64		-0.04	-

[illegible]

Jardine Fleming Unit Trusts Ltd - Contd.

JF Unitised

	Selling Price	Buying Price	+ or -	Yield Gross
JF Asia Growth P'folio	$8.33	8.82	+0.01	-
JF Intl Growth P'folio	$10.54	11.16	+0.02	-
JF Money Fund - US$	$105.84	105.84	+0.01	5.08
JF Money Fund - Yen	Y1009.28	1009.28	—	0.07
JF Money Fund - DM	DM103.30	103.30	+0.01	2.58
JF Money Fund - £	£106.39	106.39	+0.02	5.57
JF Money Fund - SFr	SFr101.59	101.59	—	1.28
JF Money Fund - Ecu	Ecu104.58	104.58	+0.01	3.54

[illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
The Russian Property Fund				
A Shares	$11.84		—	-
B Shares	$11.70		—	-
Worldwide Limited				
NAV Oct 31	$78.19		—	-
Xiphias International Investment Fd Ltd				
Xiphias Global Growth	$10.74		+0.28	-
Xiphias Int ECU Acc	Ecu1.5401		+0.0504	-
Zanett Lombardier Ltd				
NAV Nov 29	$206.15		—	-
Zuletzt Investment Management AG				
European Focus Dec 6	DM121.959		—	-
Zweig-DiMenna International Limited				
NAV Nov 30	$15515		—	-

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.

Prices of certain older insurance linked plans subject to capital gains tax on sales.

(*) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(♥) 0001 to 1100 hours
(♦) 1101 to 1400 hours
(♠) 1401 to 1700 hours
(♣) 1701 to midnight

- E Exit charge on sale of units.
- C Manager's periodic charge deducted from capital.
- H Historic pricing F - Forward pricing
- k Distribution free of UK taxes.
- p Periodic premium insurance plans.
- s Single premium insurance.
- u Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
- x Offered price includes all expenses except agent's commission.
- z Previous day's price.
- §§ Guernsey gross.
- ♦ Yield before Jersey tax.
- † Ex-subdivision. xd - Ex-dividend.
- ‡ Only available to charitable bodies
- Φ Yield column shows annualised rate of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

LIFE ASSURANCE - Cont.

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' brands.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ⁂ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
k Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1995
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
J Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT8633. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls charged at 45p per minute cheap rate and 50p per minute at all other times.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Takeovers help to underpin equity market

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

Two more takeover bids and the prospect of more of the same provided a prop for much of the day to a London equity market still keeping one eye on Wall Street.

The day's takeover bids, both hostile, were FKI for Newman Tonks and Fairey for Burnfield, and worth a total of around £250m.

Wall Street gave off more worrying signals on Monday and again at the outset of trading yesterday, with the Dow Jones Industrial Average losing its grip on the 6,300 level.

Driving the US market down on Monday was news that Morgan Stanley, one of the most powerful US investment banks, had chopped the equity weighting in its global model portfolio from 74 per cent to 56 per cent and upped cash from zero to 15 per cent.

And there was an element of unease in the US as the Federal Reserve's Open Market Committee met to consider US monetary policy. Dealers said they expected the Fed to keep interest rates on hold, but there were rumblings around the market that the Fed might spring a surprise on the markets and edge rates higher.

The US bond market was also worryingly weak for the second consecutive session, the long bond sliding around three-quarters of a point shortly after the opening yesterday, after a similar fall on Monday. A 9.2 per cent jump in US housing starts in November was behind yesterday's retreat.

UK stocks failed to sustain a mid-morning rally that almost wiped out an early 20-point fall on the FTSE 100, with the index subsequently falling away and closing a net 14.2 down at 3,979.6.

The selling pressure which made its presence felt in the leaders did not spill over into the second line and smaller stocks. The FTSE 250 index settled only 7.2 easier at 4,364.0 and the SmallCap finished a mere 0.3 off at 2,131.7.

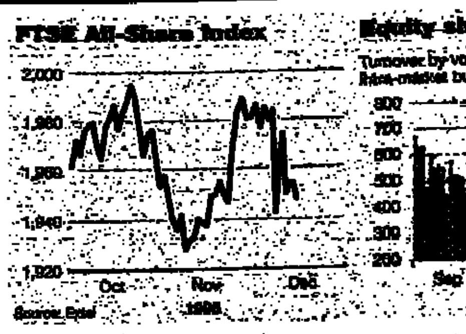
Gilts, burdened by the weakness of US Treasury bonds, could give no help to the equity market, with the 10 to 20-year gilts closing around 11 to 17 ticks lower on the day. A November public sector borrowing requirement of £2.61bn came in around the middle of forecasts and had little impact on sentiment.

One of the features of the session was the upturn in activity: turnover at the 6pm count came out at 888.7m shares, well above recent daily levels. Non-FTSE 100 stocks accounted for 56 per cent of overall business in the market.

Another feature was a burst of activity in British Steel, where a number of large blocks of shares were traded, apparently by the same marketmaker. Trading in Steel shares accounted for over 5 per cent of the market total.

A share buy-back operation set in train by Severn Trent and carried out by HSBC James Capel, the company's broker and UBS, lifted Severn shares, which figured prominently in the Footsie performance league.

Insurance stocks were again aggressively bought with dealers insisting that further bids or mergers in the broking and composite sectors will materialise sooner rather than later.



Indices and ratios

FTSE 100	3979.6	-14.2	FT 30	2740.6	-11.4
FTSE 250	4364.0	-7.2	FTSE Non-Fins p/e	17.63	17.72
FTSE 350	1977.3	-6.2	FTSE 100 Fut Dec	3976.0	-13.0
FTSE All-Share	1949.45	-5.76	10 yr Gilt yield	7.70	7.65
FTSE All-Share yield	3.87	3.86	Long gilt/equity yld ratio	2.01	1.99

Best performing sectors		Worst performing sectors	
1 Insurance	+1.7	1 Extractive Inds	-2.7
2 Water	+1.3	2 Gas Distribution	-2.3
3 Household Goods	+0.8	3 Tobacco	-1.8
4 Media	+0.6	4 Pharmaceuticals	-1.3
5 Building & Const	+0.4	5 Mineral Extraction	-0.9

Textiles stocks in tatters

By Peter John and Joel Kibazo

Misery in textiles – accentuated by two profits warnings within the sector – sent Courtaulds Textiles to its lowest level for more than six years.

The group has seen its shares decline from a high of 591p in early 1994. Yesterday, the slide continued with a fall of 10 to 221p, the worst performance of all the FTSE 350 stocks. Weakness was sparked by a statement from Sherwood, which spoke of disappointing sales and profit performance in garment and lace divisions. Courtaulds Textiles also has significant exposure to lace.

Analysts who already expected a post-exceptionals loss for the year – the first since the company was demerged from its larger chemicals arm in 1990 – were preparing to reduce estimates even further.

Additional pressure came from a second profits warning, this time from Coats Viyella. Coats expects second-half profits to be similar to the second half of 1995. Most analysts had anticipated a rise and consequently cut forecasts. NatWest Securities reduced its post-exceptionals profit figure for the current year by £19m to £84m.

The sector has been squeezed by vice-like margins as companies have been unable to force up prices to retailers. Ms Joan D'Olier of NatWest Securities commented: "Until we can be certain that there are no more downgrades in the system, I think people will be very wary of the sector."

Sherwood was one of the biggest losers in the broad market with a slide of 17 to 41½p. However, Coats Viyella, which started trading at its lowest level for more than five and a half years, rallied 5 to 127p. Analysts focused on comments about further benefits arising from the 1996 restructuring programme.

Turnover in British Steel rose to a hefty 47m, making it by far the day's most actively traded stock and its highest daily total for more than four years.

Several large trades, including several blocks of 6m and one of 9m were dealt early in the session at the stock's opening price of 168p.

Market specialists pointed to one of the big UK-owned marketmakers for the execution of the deals. The trading was said to have been carried out to fill in a short position which the broker has been running for some time.

The shares eased in afternoon trading and they closed 3 off at 165p.

British Gas dropped 5¼ to 223½p as ABN Amro Hoare Govett, one of the company's brokers, cut its recommendation on the stock to "hold" from "buy". It also lowered its 1997 dividend forecast to 5p per share from 7p.

The change of heart reflected a more cautious view on the earnings from Transco, the pipeline business, as well as the valuation of Centrica, the group's domestic supply and services business. Hoare values "new" BG at 165p a share and Centrica at 55p.

Pharmaceuticals were lower on the back of falls in their ADRs in New York. Glaxo Wellcome fell 9 to 929½p, Zeneca 21½ to 1572½p and SmithKline Beecham 15½ to 796p.

Severn Trent put on 13½ to 667½p after the company instructed HSBC James Capel and UBS to buy back up to 18m of its shares. The brokers bought the stock at 675p a share.

Cairn Energy rose 15 to 390p, driven higher by last week's news of a deal in principle to sell gas to the Bangladesh Oil, Gas and Mineral Corporation from the offshore Sangu field. One analyst pointed to the discrepancy between the share price and a net asset value estimated at 430p per share.

Mining group RTZ dipped 29½ to 921½p despite a bounce in copper prices. The shares were weighed down by an overnight drop in CRA, its Australian arm, which fell to its lowest level since mid-October.

ICI slid 6 to 767p after ABN Amro Hoare Govett cut profit forecasts for the group to reflect weak European markets, the strong pound and high oil prices. However, it retained its long-term positive stance. Hoare reduced its current year estimate to around £585m, below the bottom of the current range of between £600m and £630m. For 1997, it stands at £790m.

Commercial Union rose 13 to 693p – near its closing peak – as bid speculation continued to swirl around the sector and the stock was further helped by a strong overseas buying.

Others said there was talk of a merger between General Accident and CU, in addition to long-standing rumours of a move by Germany's Allianz or BAT Industries. Gen Acc lifted 21 to 716½p.

BSkyB rose for a second day as Monday's reports of plans to push ahead with digital TV, and positive regulatory news, brought out the buyers. The stock, which hit a five-month low of 473p late last week, rose 29 to 518½p with 7.5m traded.

BSkyB passed an important regulatory milestone after the Office of Fair Trading accepted the company's terms for the supply of its channels to cable operators.

Separately, a newspaper report said BSkyB would press ahead soon with a decoder box for new channels plus pay-per-view sport and movies.

Pearson, the media conglomerate which owns the Financial Times, fell 11½ to 689½p ahead of the company's trading statement today. Standard & Poor's, the US rating agency, lowered its long-term credit rating from A+ to A.

Dealers continued to focus on the prospect of a restructuring of the Airbus Industrie consortium, in the wake of the proposed merger between US groups Boeing and McDonnell Douglas.

Shares in British Aerospace, which holds a 20 per cent stake in the Airbus consortium and also builds the wings of the European airliner, gained another 19 to 1155½p, in trade of 2.1m.

Both Lehman Brothers and NatWest Securities issued positive notes on the stock yesterday. Advising clients to "add" to holdings, NatWest Securities said the shares "are trading on a discount to the market in 1997 and continue to have considerable attractions."

The prospect of a higher offer for building materials products group Newman-Tonks, as it rejected a £195.7m bid from engineering group FKI, boosted the former but depressed the latter. Newman shares jumped 30¼ to 149½p, while those of FKI eased 3¼ to 196½p.

Shares in contract catering company Compass Group surrendered 8 to 612p, in active trading that brought volume of 12m, after French hotel group Accor placed 1.8 per cent of its 23.4 per cent holding in the UK company.

FT 30 INDEX

	Dec 17	Dec 16	Dec 13	Dec 12	Dec 11	Yr ago	*High	*Low
FT 30	2740.6	2752.0	2738.3	2755.7	2751.7	2585.3	2885.2	2668.8
Ord. div. yield	4.20	4.15	4.17	4.14	4.14	4.16	4.22	3.76
P/E ratio net	16.94	16.64	16.55	16.66	16.67	15.47	17.46	15.80
P/E ratio nil	16.78	16.48	16.39	16.50	16.52	15.28	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2739.3	2737.7	2748.5	2743.5	2748.6	2748.5	2738.9	2738.1	2740.5	2749.1	2735.6

	Dec 17	Dec 16	Dec 13	Dec 12	Dec 11	Yr ago
SEAQ bargains	31,801	32,705	30,541	30,990	34,935	27,458
Equity turnover (£m)†	-	998.4	895.6	843.3	1357.9	1817.2
Equity bargains†	-	15,685	15,827	15,983	17,801	30,231
Shares traded (mil)†	-	453.6	325.5	332.3	410.1	690.9

†Excluding intra-market and overseas business turnover.

	Dec 17	Dec 16	Dec 13	Dec 12	Dec 11	Yr ago	*High	*Low
FTSE AIM	1015.90	1015.60	1013.50	1017.80	1018.80	-	1146.40	965.70

© FTSE International Limited 1996. All rights reserved. *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	381	Total Highs	38	Total contracts	38,135
Total Falls	669	Total Lows	121	Calls	14,865
Same	1,521			Puts	23,270

Dec 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3975.0	3972.0	-17.0	3998.0	3965.0	22860	84801
Mar	3990.0	3988.0	-17.5	4011.0	3979.0	12635	38270
Jun	4006.0	4006.0	-16.0	4006.0	4006.0	10	2269

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4373.0	4373.0	-	4373.0	4373.0	100	3275
Mar	4425.0	4428.0	+3.0	4428.0	4425.0	180	2426

FTSE 100 INDEX OPTION (LIFFE) (*3979) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	3978.4	3974.4	3989.3	3984.5	3990.1	3989.0	3976.0	3978.8	3990.4	[illegible]	3970.6
FTSE 250	4367.1	4366.4	4367.3	4366.8	4367.7	4367.7	4366.2	4363.4	4364.8	4368.1	4362.7
FTSE 350	1977.1	1975.5	1981.4	1979.4	1981.4	1981.2	1976.0	1975.8	1977.1	1981.9	1973.9

[illegible]

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1135.2	1136.2	1135.9	1136.5	1137.1	1138.3	1138.9	1139.5	1139.6	1138.6	1134.9	+4.7
Pharmaceuticals	5592.9	5582.5	5573.8	5565.3	5565.4	5548.8	5545.4	5543.2	5544.2	[illegible]	5617.1	-72.9
Water	2222.1	2225.4	2255.3	2248.2	2245.2	2246.2	2243.1	2233.9	2248.5	2249.2	2218.9	+30.3
Banks, Retail	4881.3	4874.4	4881.8	4879.8	4882.5	4888.4	4873.1	4871.8	4880.9	4881.0	4901.9	-20.9

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. [illegible] © FTSE International Limited 1996. All Rights reserved. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. Trading volumes are rounded. Source: [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 17 / Sch)

BELGIUM/LUXEMBOURG (Dec 17 / Frs.)

CZECH REP (Dec 17 / Koruna)

DENMARK (Dec 17 / Kr)

FINLAND (Dec 17 / Mks)

FRANCE (Dec 17 / Frs.)

GERMANY (Dec 17 / Dm.)

GREECE (Dec 17 / Drachma)

ITALY (Dec 17 / Lira)

NETHERLANDS (Dec 17 / Fls.)

NORWAY (Dec 17 / Kroner)

POLAND (Dec 17 / Zloty)

PORTUGAL (Dec 17 / Escudo)

SPAIN (Dec 17 / Pts.)

SWEDEN (Dec 17 / Kronor)

SWITZERLAND (Dec 17 / Frs.)

TURKEY (Dec 17 / TL Lira)

PACIFIC

JAPAN (Dec 17 / Yen)

AUSTRALIA (Dec 17 / Aust$)

HONG KONG (Dec 17 / H.K.$)

INDONESIA (Dec 17 / Rupiah)

MALAYSIA (Dec 17 / MYR)

NEW ZEALAND (Dec 17 / NZ $)

SINGAPORE (Dec 17 / S$)

SOUTH KOREA (Dec 17 / Won)

TAIWAN (Dec 17 / TW $)

THAILAND (Dec 17 / Baht)

AFRICA

SOUTH AFRICA (Dec 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 17 / Can $)

MONTREAL (Dec 17 / Can $)

INDICES

US INDICES

	Dec 16	Dec 13	Dec 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	720.98	728.64	729.33	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials¶	847.56	857.46	858.18	887.49 (2/12)	702.07 (18/1)	887.49 (2/12/96)	3.52 (30/6/32)
Financial	78.86	79.49	79.33	84.93 (29/11)	58.57 (10/1)	84.93 (29/11/96)	7.13 (4/9/74)
NYSE Comp.	380.85	384.07	384.29	398.86 (25/11)	321.41 (19/1)	398.86 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	572.57	576.06	579.11	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1260.98	1284.91	1298.33	1316.27 (9/12)	988.57 (15/1)	1316.27 (9/12/96)	54.87 (3/10/74)

■ RATIOS

	Dec 13	Dec 6	Nov 29	Year ago
Dow Jones Ind. Div. Yield	2.09	2.05	2.02	2.27
	Dec 11	Dec 4	Nov 27	Year ago
S & P Ind. Div. yield	1.85	1.83	1.81	1.95
S & P Ind. P/E ratio	23.04	23.05	23.30	19.08

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Iomega	8,267,900	17	-1¼
Boeing Co	6,939,800	101⅛	+4⅝
McDonn Dg	6,730,400	62⅜	+10⅝
Micron Tch	5,341,100	33⅜	-1⅞
Pepsico	4,468,100	29	-⅛
AT & T	4,366,500	39½	+⅛
Hanson	4,188,400	6⅝	—
Wal-Mart	4,178,400	23⅜	-⅜

■ TRADING ACTIVITY

● Volume (million)

	Dec 16	Dec 13	Dec 12
New York SE	447.584	454.475	492.759
Amex	19.882	20.072	22.920
NASDAQ	532.175	569.370	600.987
NYSE			
Issues Traded	3,332	3,294	3,313
Rises	880	1,050	880
Falls	1,666	1,435	1,626
Unchanged	786	809	807

INDEX FUTURES

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, December 17, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	7.8m	345	+6	Kawasaki Steel	4.7m	337	+5
Bk Tk-M'bishi	6.4m	2120	+30	Tokio M & F Ins	3.8m	1070	-50
Keisei Elect Ry	*5.9m*	*783*	*+12*	*Sanwa Bank*	*3.4m*	*1680*	*+40*
Mitsubishi Hvy	5.8m	937	+3	Nippon Credit Bk	2.8m	307	+5
Daiwa Bank	4.7m	637	+25	Tokyo Gas	2.8m	310	-1

4 pm close December 17

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
31¼	17¾	AAR	0.48	1.8	22	314	27	26¾	26¾	
46½	33	AMP	1.00	2.7	18	5847	37¼	36⅞	37⅛	-¼
87½	68	AMR			17	7087	88⅜	84	87⅛	+2⅜
50½	35⅛	ASA	1.40	3.9	23	661	36⅛	35½	35¾	
57⅞	38⅝	AbbtL	0.96	1.9	21	10487	51¼	50⅛	50¾	+¾
17¼	12¼	AbitibiPr	0.40	2.7	7	2468	14⅝	14⅝	14¾	+⅛
29¾	19½	ABM Ind	0.35	2.2	16	127	16⅜	15¾	15¾	-½
22½	13⅞	Acptncels			8	222	20⅛	19¾	20	+⅛
60	37¾	ACE Ltd	0.58	1.0	14	1713	58⅞	57¾	58	-1
10⅞	9⅛	ACM Gvt In	0.86	8.5	8	120	10⅛	10	10⅛	+⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.0		148	7¼	7⅛	7⅛	-⅛
9⅞	8⅜	ACM Man x	0.90	9.4		372	9⅝	9½	9⅝	+⅛
19⅞	6⅛	Acme Elect	0.32	4.7	52	94	7	6¾	6⅞	+⅛
21⅝	13⅞	Acme Mils			14	38	20	19⅝	19⅝	-¼
33¾	27¾	Acordia x	0.80	2.7	14	16	29¾	29¼	29¼	+¼
24¾	12	Acuson			102	1106	21¾	21	21½	
21⅛	17⅞	Adams Expr	0.55	2.8	1	82	19½	19⅜	19½	+⅛
28⅝	10¼	AdvMic			26	16097	28⅜	25⅛	25½	-1⅛
11⅛	8½	Advest Grp	0.16	1.6	7	20	10⅛	10⅛	10⅛	-⅛
26⅛	9⅛	Advo Inc	0.10	0.9	89	718	11⅞	11½	11⅝	
56⅝	41⅛	Aegon	1.45	2.7	18	101	54½	54⅛	54½	-⅛
6¾	3½	Aerflx			2	145	4⅜	4⅛	4¼	
76½	57⅝	Aetna	0.80	1.1	10	5454	74⅞	73	74⅞	+1¾
44	28¼	AfiacS	0.40	0.9	17	3734	42⅝	41	42⅛	+1½
22	17⅛	AGL Res			15	397	21⅛	20½	21⅛	+½
33⅞	21¼	Ahmnsn	0.88	2.7	58	7593	32½	31¾	32½	+¾
70	60⅜	AirPrC			17	2222	66⅞	65¾	66¾	+⅛
26⅛	19½	Airbne Frt	0.30	1.4	16	957	22	21⅝	21⅞	-⅛
27⅛	15½	Airgas Inc			36	243	24	23⅝	23⅝	-⅜
18⅞	13¼	Airlease	1.80	11.4	10	33	16¾	15⅝	16¾	
33⅝	25	AirTch			71	7114	26	25⅝	25⅞	+⅛
30¾	15⅞	Alaska Air	0.20	0.9	7	758	22⅞	22¼	22¾	+⅜
23	17¼	Albany Int x	0.40	1.8	14	51	22	22	22	

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
33¾	24	Bearings	0.64	2.3	13	203	27¾	27½	27½	-¼
41⅛	32	Beckman In	0.52	1.5	16	371	35⅞	35⅛	35⅜	
45½	35½	BectsD	0.52	1.2	19	6363	42¾	41¾	42	+½
17	12⅜	BellstPrp	1.04	6.3	16	155	16¾	16⅝	16⅝	
74⅞	55⅜	BellAtl	2.88	4.7	14	7441	61⅛	60½	61	+⅛
22¼	15	Bell In	0.40	2.0	9	331	21⅛	20½	20½	-⅜
45¾	35¼	BellSth	1.44	3.7	17	18835	39½	38⅞	39½	+1
41¾	31	Belo A	0.44	1.3	18	2294	35⅛	34¼	34⅞	+½
37⅛	25⅝	Bemis	0.72	2.1	18	631	34⅝	34⅛	34¼	-⅛
67½	59	Benef 4.3P	4.30	6.4		5	67	66¾	66¾	
65½	43⅝	Benef	1.98	3.2	12	837	61⅜	60⅛	61⅛	+½
27¾	20¾	Benetton A	0.37	1.6	14	20	23¾	23⅜	23½	-¼
⅞	⅜	Benguet B	0.04	10.7	18	387	7/16	0⅜	⅜	-1/16
33	24⅛	BergBr	0.48	1.8	14	977	27⅜	27⅛	27⅜	+¼
38000	28800	BerkHA			77	3	32800	32800	32700	-200
1220	990	BerkHB				20	1096	1083	1090	-5
14⅜	8¾	Berry Petr x	0.40	2.9	19	20	14	13⅞	13⅞	-¼
26¼	12	Best Buy			12	2816	12⅝	12⅜	12½	-⅛
28⅛	24½	Beth St 2.	2.50	9.7		11	25⅞	25¾	25⅞	
54¾	48⅜	Bethlhm Pf	5.00	9.9		32	50½	49⅞	50½	+½
15⅞	7⅜	BethSt	0.40	4.3	20	5398	9¼	9	9¼	+⅛
60⅛	40⅛	Btzfrn	1.49	2.5	24	338	59⅛	58½	59	+⅛
13¾	9¼	BevEnt			78	3448	12¾	12⅜	12⅝	
18	14½	Birmingm S	0.40	2.3	118	428	17⅞	16⅞	17¾	+⅝
44¼	29	BlDeck x	0.48	1.6	9	7941	29⅞	29	29⅜	-⅜
28¾	22¾	Black H PL	1.38	5.1	13	137	27¼	27	27⅛	+⅛
9⅛	8	BlckrckAdv x	0.62	7.1		700	8¾	8½	8¾	+¼
6⅝	5⅞	Blckrckinc x	0.56	8.8		1825	6⅜	6⅛	6⅜	+⅛
9	8⅜	BlckrckTgt x	0.58	6.5		525	9	8⅞	8⅞	-⅛
42⅛	23⅝	Block x	1.16	4.0	90	5843	29	28⅝	29	-½
37¾	25⅜	Blount A x	0.51	1.4	13	255	36¼	36	36¼	
10¼	7½	Blue Chip	0.16	1.6		152	10	9¾	9⅞	
4⅜	2⅜	Bluegreen			52	161	2¾	2⅝	2⅝	

Continued on next page

4 pm close December 17

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
54⅞	49⅞	York Int x	0.36	0.7	25	882	u54⅞	53⅝	54⅞	+1⅜
4	3	Zapata	0.14	4.0	9	168	3½	3½	3½	
25¼	5⅞	ZenithE			5	1552	12¾	12⅜	12½	
28⅞	21⅛	Zenith Nat	1.00	3.8	35	14	26¼	26⅛	26¼	+⅛
7¾	6½	Zenix Inc	0.73	10.2		238	u7¼	7⅛	7⅛	
22⅞	15⅛	Zero	0.12	0.6	18	121	18⅞	18⅝	18⅞	+⅛
29	18½	Zurn Ind x	0.40	1.7	25	755	24⅛	23¼	23⅝	-½
11⅜	10½	Zweig Fund	1.06	10.0		318	10⅞	10¾	10¾	-⅛
9	8⅛	Zweig Totl x	0.84	10.3		779	8¼	d8⅛	8⅛	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

¶ Dealings suspended.

♣ **FT Free Annual Reports Service**

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ft.

AMEX PRICES

4 pm close December 17

NASDAQ NATIONAL MARKET

4 pm close December 17

Dow eases as bonds fall sharply

AMERICAS

US shares were modestly lower at midsession as some technology shares bounced back from Monday's sharp sell-off and investors awaited news from the Federal Reserve's Open Market Committee meeting, *writes Lisa Bransten in New York.*

At 1pm, the Dow Jones Industrial Average was 3.47 lower at 6,264.88 and the more broadly traded Standard & Poor's 500 gave up 0.22 at 720.76. NYSE volume was 298m shares.

Almost no one on Wall Street expected the Fed to alter interest rate policy yesterday, but strong figures on new home construction sent bonds sharply lower in early trade. Near midday, the yield on the benchmark 30-year Treasury was at 6.674 per cent, its highest level since November 1.

The Nasdaq composite, which is weighted toward technology shares, initially moved about 4 points higher before returning all of those gains and falling into negative territory.

By early afternoon, the Nasdaq was 4.02 lower at 1,256.96 as larger companies held on to early gains. Intel, the largest company on the Nasdaq, was $1⅛ stronger at $128⅛ and Microsoft, the index's second largest issue, added $1⅛ at $78⅞.

Early gains in technology shares were attributed in part to the earnings announcement late on Monday by Micron Technology. The semiconductor company reported earnings that were about 94 per cent below those made in the same period last year, but net income of 10 cents a share was about 6 cents ahead of the mean estimates from analysts.

That outperformance was clouded by reports that an analyst at Merrill Lynch had lowered his rating on the company. In morning trade Micron added as much as $1⅝, but by early afternoon it was $⅜ lower at $32⅞.

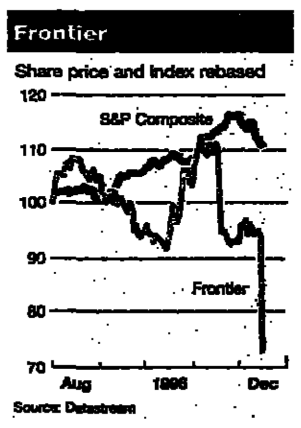
Elsewhere, Frontier, the fifth largest long distance telephone company in the US, slid $5⅞ or 21 per cent to $20⅞ after warning that fourth quarter profits would be as much as 16 per cent below last year's levels, due largely to lower-than-expected long-distance revenues.

That news sent several other smaller telecoms groups lower. LCI International shed $3 or 11 per cent at $25⅞ and Teleport Communications Group fell by $1 or 3 per cent to $28⅞.

TORONTO traded narrowly through a morning session marked by low levels of turnover. At noon, the 300 composite index was off 14.37 at 5,698.00 with declines leading advances by four-to-three.

All but four of the index sub-groups were in negative territory at midsession with industrial products stocks, off almost 1 per cent, leading the way down. Newbridge Networks was C$1.05 lower at C$40.45. Among leading stocks, Alcan Aluminium shed 45 cents to C$45.05 and Canadian Pacific 30 cents to C$33.10.

Frontier



Mexico City advances

MEXICO CITY recovered from initial losses to notch up modest gains at the end of a subdued morning's trading. At midsession, the IPC index was 12.21 ahead at 3,187.30.

At the outset there were clear worries about interest rates with rumours running around the market of a hike of between 50 and 100 basis points for primary Cetes rates.

However, sentiment rallied as the morning wore on. "Towards midday there were signs of bargain-hunting", said one trader.

BUENOS AIRES was flat at midsession as investors trod water in cautious trading ahead of the outcome of the meeting of the US Federal Reserve's policy-making arm.

The Merval index was 0.54 higher at 600.74 by noon. Analysts noted, however, the low volume of trade, with many market participants wary of risking losing any of the gains that they had posted in 1996.

CARACAS started badly and by midsession the IBC index was trailing by 95.51 or 1.5 per cent at 6,155.32.

S Africa hit by futures selling

Traders in Johannesburg ran into a wave of derivatives-driven selling as they returned from their three-day weekend.

The market fell heavily at the outset as the December futures and options contracts expired. Investor sentiment stayed depressed throughout the session.

At the close the overall index was off 98.5 at 6,384.0 following a drop of 113.6 to 7,568.9 for the industrial index. Golds also had a bad day, sliding 33.9 or 2.2 per cent to 1,477.7.

"Much of the downside stemmed from the futures market. There was all sorts of confusion at the 10am expiry," said one broker.

De Beers came off R1.75 to R132.50 and South African Breweries ended down R3 at R108.75. Among golds, Vaal Reefs fell R4 to R311.

Takeover talk lifts Frankfurt from trough

EUROPE

A revival of takeover talk at Commerzbank lifted **FRANKFURT** comfortably off its worst levels of the day.

Number three in the German banking league, Commerzbank pushed ahead against the trend as speculation ranged from the possibility of an outright bid for the bank or a strategic acquisition by Commerzbank itself.

It was an old story but it brushed up fresh enough to lift the shares by 34 pfg to DM38.44. Some dealers said that a single big buy order explained the rise.

Otherwise traders spent the session tracking Wall Street and positioning themselves ahead of Friday's options and futures expiry for Dax contracts.

Deutsche Bank closed off DM1.22 at DM71.19 and Dresdner Bank ended down 33 pfg at DM48.83. Volkswagen lost DM3.70 to DM608.30. Thyssen shed DM3 to DM270.

Rumours of management changes left SAP DM6.90 lower at DM202.50.

At the close, the Dax index was 32.66 lower at its Ibis-indicated 2,808.50.

PARIS had a volatile session, recovering strongly from early losses on the news of official rate cuts but finally ending with the CAC 40 index off 28.87 or 1.3 per cent at 2,193.70.

Dealers said that turnover was dull with investors uncertain about direction and many holding off the market as the Bank of France spelt out its monetary policy targets.

The interest rate moves met with a mixed reaction, as Axa hardened slightly but most financials lost ground.

Axa added FFr2.60 to FFr304.8. Bancaire came off FFr13 to FFr565 and Suez shed FFr3.50 to FFr211. Paribas ended down FFr5.10 at FFr339. LVMH dipped FFr25 to FFr1,243 in spite of a Japanese decision to reduce whisky sales taxes. Dealers said that worries about the group's DFS purchase held sentiment in check.

Among second liners, Groupe Andre, the shoe retailer, added FFr1.60 to FFr398.6 after announcing a financial restructuring plan.

Usinor-Sacilor, something of a high flyer lately on the hopes, came off FFr1.30 to FFr76.

AMSTERDAM took its cue from a dull bond market and moved lower in subdued volume. The AEX index unwound most of Monday's gains, ending off 3.18 at 612.94.

Fortis Amev, the previous day's best performer, turned tail with a decline of Fl 1.20 or more than 2 per cent to Fl56.80. ABN-Amro dipped Fl 1.80 to Fl 106.3.

Forecasts of an oil price drop to $16 a barrel next year from Royal Dutch sent the shares down by 10 cents to Fl 288.40.

News of fare hikes at both the airline and its cargo offshoot depressed KLM by 10 cents to Fl 47.10. Philips came off 10 cents to Fl 68. KNP BT was the day's sharpest decline, tumbling Fl 1.70 or 4.6 per cent to Fl 35.30.

ZURICH put Ciba and Sandoz in the spotlight as the companies called a news conference about their planned merger to become Novartis. However, the pair turned back from their best levels after they confirmed that the US Federal Trade Commission had conditionally approved the merger. The two companies insisted that the conditions left their innovative potential intact.

Ciba finished SFr2 weaker at SFr1,625, off a high of SFr1,649, while Sandoz turned back from SFr1,540 to finish SFr4 weaker at SFr1,525. The new Novartis shares are to begin trading on December 23.

The broad market edged lower, with many investors sidelined ahead of the FOMC meeting. The SMI index lost 19.8 to 3,850.4.

Baloise fell SFr115 to SFr2,760 when trading resumed after a suspension due to the insurer's announcement that it planned a share split and a capital payout, rather than a dividend, on 1996 results.

Swissair added to Monday's SFr38 jump, with another rise of SFr14, taking the shares to SFr1,069 on expectations that tomorrow's press conference would bring news of a plan to separate some of the company's profitable catering operations from its airline operations.

STOCKHOLM featured a 3.6 per cent fall in Scania, the truck maker, after its announcement, late on Monday, that its production in the first quarter of 1997 would be cut. The shares lost SKr6 to SKr162.

Scania said that it would cut production by about 15 per cent in Europe to balance delivery delays caused by the French truckers' strike in November. The company added that the dispute hit sales and earnings which could have an adverse impact on results in the current quarter.

The Affärsvärlden general index was down 25.4 at 2,290.0.

Stadshypotek eased SKr1.5 to SKr186.5 after the board decided to recommend to shareholders the acceptance of Svenska Handelsbanken's bid. Handelsbanken was SKr5 down at SKr190.

ISTANBUL rebounded 3.7 per cent, wiping out Monday's 2.4 per cent fall which followed Standard & Poor's downgrading of the country's long-term foreign currency rating.

The IMKB-100 index picked up 3,239.00 to close at a day's high of 90,335.96 on selective buying fuelled by a limited cash influx. One analyst said that the recovery came as investors realised that the S&P action did not affect other instruments and that Monday's early 5.5 per cent plunge had been an overreaction.

OSLO fell 1.4 per cent, unnerved by the overnight fall on Wall Street and yesterday's US economic data. The total index finished 13.17 down at 920.03.

Analysts noted, however, that the market was likely to see a cash inflow in coming weeks under regulations which give investors tax breaks if they invest in the stock market around new year.

BRUSSELS [illegible] with a big [illegible] Bekaert [illegible] unsettling [illegible]. Bekaert lost BFr3,075 to BFr19,825 following a profits warning. The BFX index closed 111.16 lower at 1,849.03.

Written and edited by Michael Morgan and Jeffrey Brown

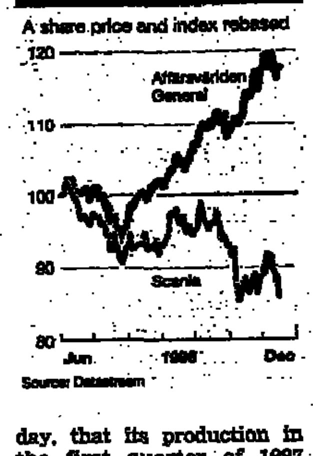
FTSE Actuaries Share Indices

Dec 17							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1848.72	1849.69	1849.21	1848.86	1848.09	1846.73	1845.40	1847.55
FTSE Eurotrack 200	1897.05	1898.82	1898.62	1897.95	1899.73	1895.94	1895.58	1898.43

	Dec 16	Dec 13	Dec 12	Dec 11	Dec 10
FTSE Eurotrack 100	1854.40	1832.24	1855.68	1854.05	1877.85
FTSE Eurotrack 200	1899.55	1879.95	1900.22	1898.89	1919.80

Base value 1000 (26/10/90). Highday: 100 - 1850.22; 200 - 1901.40 Lowday: 100 - 1844.97 200 - 1894.16 † Partial. © FTSE International Limited 1996. All rights reserved.

Scania



Further selling leaves Seoul near 45 month low

ASIA PACIFIC

Further nervous selling took **SEOUL** down for a fifth consecutive session and left the composite index 10.57 weaker at 663.35, at its lowest level for almost 45 months.

Analysts who warned that the index could fall as low as 620 points before a floor was found, said that the uncertain economic outlook, high interest rates and a floundering currency had made the stock market an unattractive proposition for many investors. They added that investors were particularly uninspired by the government's recent market boosting measures.

Some buying emerged in late trading for banks and securities shares on the view that they had been oversold.

Commercial Bank of Korea rose Won180 to Won5,180 and Kookmin Bank gained Won200 to Won11,300. Daewoo Securities rose Won300 to Won11,000.

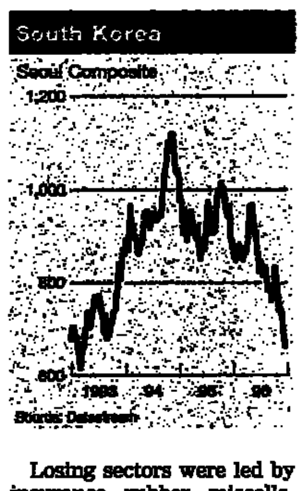
TOKYO finished flat after early losses were mostly offset by fresh buying and short-covering in recently hard hit sectors such as construction and banking, *agencies report.*

The Nikkei 225 average finished 8.58 lower at 20,413.46, after a high of 20,500.90 and a low of 20,230.88. Its March futures fell 10 to 20,410.

Conversely, the broader Topix index rose 3.44 to 1,515.42, prompting the view that most weak sectors had now bottomed out. The Nikkei 300 average gained 0.78 to 287.42.

Volume on the first section of the TSE was a moderate 341m shares, compared with 266m shares on Monday. Declining issues outnumbered advancers 628 to 430, while 200 issues were unchanged. In London, the ISE/Nikkei 50 index fell 2.00 to 1444.97.

South Korea



Losing sectors were led by insurance, rubber, miscellaneous manufacturing, land transport and gas. Gainers were led by railway/bus, banks, oil, construction and warehousing.

Shares in Japan's non-life insurers lost out for a second consecutive day. The biggest loser was Tokio Marine, down Y50 at 1,070, while Mitsui Marine fell Y26 to Y608 and Yasuda Fire lost Y23 at Y620.

Renewed foreign demand supported the banks. Daiwa Bank jumped Y25 to Y637 while Sumitomo Bank and Dai-Ichi Kangyo Bank each rose Y50 to Y1,840 Y50 and Y1,770 respectively.

In the new, second section of the over-the-counter market, ATL Systems made a solid debut. The shares, with a subscription price of Y280,000, climbed to a high of Y473,000 before turning back to close at Y424,000.

In Osaka, the OSE average rose 18.21 to 20,692.57.

SHENZHEN's A and B shares, targeted respectively at domestic and foreign investors, continued to plunge, closing near their limit-down levels of 10 per cent in further response to Beijing's crackdown on the stock markets.

The A index plummeted 41.69 to 375.51 and the B index dived 12.79 to 121.64.

SHANGHAI's A shares were also under pressure, losing 100.964 or 9.6 per cent to 946.716, but the B index found some relief after its recent falls, losing 1.431 or 2.4 per cent at 58.498.

HONG KONG was weak with yesterday's US Federal Open Market Committee providing an excuse to take profits.

The Hang Seng index fell 122.11 to 12,815.37 after bouncing off a low of 12,747.91. Turnover declined but remained healthy at HK$5.7bn, down from Monday's HK$6.5bn.

Properties came in for selling in the morning, but utilities were the worst performer over the day.

Hongkong Telecom slipped 30 cents to HK$12.90 and China Light lost 50 cents to HK$33.50, while Hongkong Electric added 5 cents to HK$25.75.

TAIPEI ended lower after late selling in thin volume. The weighted index gave up early to close off 35.85 at 6,855.57.

First International Computer stayed on the upside, adding T$1 or 1.94 per cent to T$52.5 after raising its profit target for this year by around 30 per cent.

MANILA finished lower with the main index slipping 22.37 to 3,093.21. Bargain hunting created two bright spots. Centennial City, hit lately by the Manila Bay reclamation controversy, bounced 50 centavos or 18 per cent to 3.10 pesos. Philippino Telephone gained 1.25 pesos or almost 5 per cent to 24 pesos.

BANGKOK eased lower as investors put a negative interpretation on the latest economic plan. The SET index slipped 5.53 to 867.23 on weak volume.

SYDNEY moved lower in line with the overnight decline on Wall Street. The All Ordinaries index came off 20.5 to 2,315.8.

Media stocks provided the main focus on the news that Hollinger is to sell its 25 per cent holding in Fairfax to Brierley Investments. Fairfax dipped 1 cent to A$2.77.

SINGAPORE featured a 2.8 per cent drop in Fraser & Neave in further response to its warning that it expected its property earnings to fall by half in the current year. The shares lost 40 cents to S$14.10, at which level, analysts said, F&N should find some support.

The broad market was easier with the Straits Times Industrial index losing 6.74 at 2,176.52.

Strong demand was, however, seen for Singapore Land which rose 35 cents to S$8.20. Jurong Cement was another gainer, rising 5 cents to S$6.25 on old takeover rumours.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY DECEMBER 16 1996								FRIDAY DECEMBER 13 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (77)	212.86	0.8	189.89	153.46	171.90	178.59	1.0	4.27	211.11	188.76	151.90	169.74	176.89	224.61	187.53	190.61
Austria (24)	186.44	0.6	168.32	134.41	150.57	150.49	1.0	1.90	185.37	165.75	133.38	149.05	148.97	195.04	168.36	172.39
Belgium (27)	221.93	0.3	197.98	160.00	179.23	175.28	0.8	3.80	221.31	197.88	159.24	177.95	173.83	229.11	203.64	206.18
Brazil (28)	178.98	–0.6	159.66	129.03	144.54	342.32	–0.6	1.79	180.03	160.97	129.54	144.75	344.24	189.70	131.21	135.33
Canada (115)	183.29	–0.3	163.50	132.13	148.02	181.28	0.1	2.00	183.76	164.31	132.22	147.75	181.10	198.24	144.35	148.27
Denmark (30)	337.61	1.0	301.17	243.39	272.65	272.87	1.5	1.89	334.25	298.87	240.51	268.76	268.92	340.41	281.10	286.61
Finland (24)	235.64	0.3	210.21	169.88	190.30	229.38	0.6	2.19	234.95	210.08	169.05	188.91	228.00	244.11	171.73	177.98
France (93)	204.98	0.4	182.86	147.77	165.54	168.56	0.8	2.90	204.12	182.51	146.87	164.12	167.19	212.49	172.05	175.70
Germany (58)	186.41	1.5	166.29	134.39	150.54	150.54	1.9	1.60	183.73	164.28	132.20	147.73	147.73	189.86	161.25	163.19
Hong Kong (58)	492.22	1.2	439.10	354.85	397.51	488.84	1.1	3.19	486.44	434.95	350.01	391.12	483.35	513.18	372.58	377.37
Indonesia (27)	221.90	–0.3	197.95	159.97	179.21	320.31	–0.3	1.61	222.65	199.08	160.20	179.02	321.39	–	–	–
Ireland (16)	311.74	0.5	278.09	224.74	251.76	264.34	0.4	3.47	310.29	277.44	223.26	249.49	263.29	321.14	250.17	254.40
Italy (58)	80.61	1.9	71.91	58.12	65.10	92.14	2.1	2.25	79.11	70.74	56.92	63.61	90.24	84.53	69.68	72.30
Japan (480)	134.54	0.6	120.02	96.99	108.65	96.99	0.7	0.79	133.80	119.64	96.28	107.59	96.28	164.68	133.80	151.89
Malaysia (107)	584.23	0.4	521.17	421.19	471.82	568.53	0.5	1.10	581.94	520.33	418.72	467.91	565.57	607.65	477.30	484.33
Mexico (27)	1147.96	–0.5	1024.06	827.59	927.08	9885.96	–1.1	1.12	1153.32	1031.23	829.85	927.33	9992.01	1325.65	971.65	980.84
Netherland (19)	316.33	0.8	282.19	228.05	255.46	251.69	1.3	2.94	313.78	280.56	225.77	252.29	248.51	328.12	265.24	266.96
New Zealand (15)	91.23	0.0	81.39	65.77	73.68	69.23	0.3	3.98	91.26	81.59	65.66	73.37	69.03	94.40	75.94	77.77
Norway (35)	280.80	0.5	250.49	202.44	226.77	247.04	0.6	2.04	279.39	249.81	201.03	224.64	245.61	286.15	222.24	227.47
Philippines (22)	199.92	–0.3	178.34	144.13	161.45	261.93	–0.3	0.63	200.54	179.31	144.29	161.24	262.79	–	–	–
Singapore (43)	415.53	1.6	370.68	299.57	335.58	268.22	1.7	1.01	409.00	365.71	294.29	328.86	263.74	465.21	371.28	399.32
South Africa (44)	307.23	0.4	274.07	221.49	248.11	316.71	0.0	2.48	306.12	273.72	220.26	246.14	316.71	437.76	306.12	384.72
Spain (37)	202.45	1.8	180.60	145.95	163.50	200.42	2.2	2.99	198.92	177.86	143.13	159.94	196.11	202.45	159.66	160.42
Sweden (48)	407.80	0.9	363.78	293.99	329.33	412.27	1.2	2.07	404.19	361.41	290.83	324.99	407.45	416.67	294.19	303.16
Switzerland (37)	237.24	–0.1	211.63	171.03	191.59	195.17	0.8	1.52	237.38	212.25	170.80	190.86	193.65	254.34	219.29	232.04
Thailand (45)	108.19	0.8	96.51	77.99	87.37	107.53	1.0	3.19	107.28	95.92	77.19	86.26	106.45	193.95	107.28	164.96
United Kingdom (213)	266.87	0.8	238.07	192.39	215.52	239.07	0.5	3.99	264.87	236.83	190.58	212.97	236.83	273.93	222.43	225.61
USA (623)	293.43	–1.1	261.76	211.54	236.97	293.43	–1.1	2.05	296.59	265.20	213.41	238.48	296.59	307.82	243.34	250.98
Americas (793)	268.24	–1.0	239.28	193.38	216.62	225.66	–1.0	2.03	271.00	242.31	194.99	217.90	227.87	281.50	222.53	228.52
Europe (720)	229.32	0.8	204.57	165.32	185.20	198.33	1.0	2.92	227.46	203.39	163.67	182.89	196.33	234.56	194.31	197.15
Nordic (137)	349.30	0.8	311.60	251.82	282.09	308.15	1.1	2.02	346.57	309.88	249.37	278.66	304.84	355.51	261.13	268.58
Pacific Basin (675)	152.40	0.6	135.95	109.87	123.07	110.84	0.8	1.27	151.45	135.42	108.97	121.77	109.97	177.01	151.45	162.20
Euro-Pacific (1595)	184.35	0.7	164.45	132.90	148.88	143.83	0.9	2.13	183.02	163.65	131.69	147.16	142.54	191.51	175.04	176.66
North America (738)	286.81	–1.0	255.85	206.76	231.62	286.07	–1.0	2.04	289.78	259.11	208.51	233.00	288.99	301.15	237.55	244.52
Europe Ex. UK (507)	204.37	0.8	182.31	147.33	165.04	173.82	1.3	2.29	202.63	181.18	145.80	162.93	171.57	209.70	174.81	177.39
Pacific Ex. Japan (395)	306.63	0.9	273.54	221.06	247.63	264.83	0.9	2.82	303.99	271.81	218.73	244.43	262.40	317.92	257.91	261.29
World Ex. US (1809)	186.08	0.7	165.99	134.15	150.27	148.66	0.8	2.12	184.86	165.29	133.01	148.64	147.84	193.47	176.03	177.80
World Ex. UK (2219)	215.32	–0.2	192.08	155.23	173.89	185.60	–0.1	1.88	215.76	192.92	155.25	173.48	185.72	224.89	186.13	197.58
World Ex. Japan (1952)	264.51	–0.3	235.96	190.69	213.62	249.84	–0.2	2.39	265.21	237.13	190.82	213.24	250.30	274.98	224.52	227.19
The World Index (2432)	219.73	–0.1	196.01	158.41	177.45	190.40	0.0	2.09	219.97	196.69	158.27	176.87	190.42	226.97	198.47	200.06

Latest prices were unavailable for this edition. Market closed 16/12/96: South Africa.